

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549
FORM 10-K/A
 (Amendment No. 1)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2021
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 001-35955

Vuzix Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State of incorporation)

25 Hendrix Road

West Henrietta, New York

(Address of principal executive office)

04-3392453

(I.R.S. employer identification no.)

14586

(Zip code)

(585) 359-5900

(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.001	VUZI	Nasdaq Capital Market

Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
 Emerging growth company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes No

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

The aggregate market value of the voting and non-voting common equity of the registrant held by non-affiliates as of June 30, 2021 was approximately \$ 1,082,000,000 (based on the closing price of the common stock of \$18.35 per share on that date, as reported on the NASDAQ Capital Market and, for purposes of this computation only, the assumption that all of the registrant's directors and executive officers are affiliates and that beneficial holders of 10% or more of the outstanding common stock are affiliates).

As of March 2, 2022, there were 63,672,268 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference portions of the registrant's proxy statement for its 2022 annual meeting of stockholders.

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A to the Annual Report of Vuzix Corporation (the “Company”, “its”, “we,” “our,” or us”) for the fiscal year ended December 31, 2021, filed with the Securities and Exchange Commission on March 2, 2022 (the “Original Form 10-K”), is being filed, in connection with comments received from the staff of the Securities and Exchange Commission, for the purpose of expanding upon the level of detail provided on our previously issued Form 10-Q’s for 2021 as it relates to a correction of an error that affected the Company’s 2021 Quarterly Reports.

As further described in Note 2 of this Form 10-K/A, the Company’s management and the audit committee of the Company’s Board of Directors concluded that due to a correction of an error that was discovered just before our filing of the Original Form 10-K, the previously issued unaudited financial statements and other financial information contained in the Company’s Quarterly Reports on Forms 10-Q for the fiscal periods ended March 31, 2021, June 30, 2021 and September 30, 2021, and the Company’s earnings releases and other financial communications for these periods should no longer be relied upon. The unaudited interim financial information for the periods ended March 31, 2021, June 30, 2021, and September 30, 2021 are restated in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

We are filing this Amendment No. 1 to amend the 2021 Form 10-K with modification as necessary to further describe the restatements that affected the unaudited interim financial information for the periods ended March 31, 2021, June 30, 2021 and September 30, 2021. The following items have been amended to reflect the restatements:

Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Part II, Item 8. Financial Statements and Supplementary Data

In addition, the Company’s Chief Executive Officer and Chief Financial Officer have provided new certifications dated as of the date of this filing in connection with this Form 10-K/A (Exhibits 31.1, 31.2, 32.1 and 32.2).

Except as described above, this Form 10-K/A does not modify or update the disclosures in, or exhibits to, the Original Form 10-K, and such disclosures in, or exhibits to, the Original Form 10-K remain unchanged and speak as of the date of the filing of the Original Form 10-K, except that new certifications and a new consent of the Company’s independent accountant are being filed herewith. In particular, this Form 10-K/A does not modify the Company’s consolidated financial results for the periods presented in the Original Form 10-K.

FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on our management's beliefs and assumptions and on information currently available to our management. The forward-looking statements are contained principally under the headings "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business." Forward-looking statements contained in this Annual Report on Form 10-K include, but are not limited to, statements concerning:

- trends in our operating expenses, including personnel costs, research and development expense, sales and marketing expense, and general and administrative expense;
- the effect of competitors and competition in our markets;
- the impact of the COVID-19 pandemic on our business and our response to it;
- our wearable display products and their market acceptance and future potential;
- our ability to develop, timely introduce and effectively manage the introduction of new products and services or improve our existing products and services;
- expected technological advances by us or by third parties and our ability to leverage them;
- our ability to attract and retain customers;
- our ability to accurately forecast demand and adequately manage inventory;
- our ability to deliver an adequate supply of product to meet demand;
- our ability to maintain and promote our brand and expand brand awareness;
- our ability to detect, prevent, or fix defects in our products;
- our reliance on third-party suppliers, contract manufacturers and logistics providers and our limited control over such parties;
- trends in revenue, costs of revenue, and gross margin and our possible or assumed future results of operations;
- our ability to attract and retain highly skilled employees;
- the impact of foreign currency exchange rates;
- the effect of future regulations;
- the sufficiency of our existing cash and cash equivalent balances and cash flow from operations to meet our working capital and capital expenditure needs for at least the next 12 months; and
- general market, political, economic and business conditions.

All statements in this annual report that are not historical facts are forward-looking statements. We may, in some cases, use terms such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "will," "would" or similar expressions that convey uncertainty of future events or outcomes to identify forward-looking statements.

Forward-looking statements are made based on management's beliefs, estimates and opinions on the date the statements are made and we undertake no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change, except as may be required by applicable law. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements.

PART I

Item 1. *Business*

Company Overview

We are engaged in the design, manufacture, marketing and sale of augmented reality wearable display and computing devices, also referred to as head mounted displays (or HMDs, but also known as near-eye displays), in the form of Smart Glasses and Augmented Reality (AR) glasses. Our wearable display devices are worn like eyeglasses or attach to a head worn mount. These devices typically include a built-in computer, cameras, and sensors that enable the user to view, record and interact with video and digital content, such as computer data, the Internet, enterprise data, social media or entertainment applications effectively connecting the metaverse to the real world. Our wearable display products integrate micro-display technology with our advanced optics to produce compact high-resolution display engines, less than half an inch diagonally, which when viewed through our Smart Glasses and AR glasses create virtual images that appear comparable in size to that of a computer monitor or a large-screen television. This includes the representative forms such as augmented reality (AR), mixed reality (MR) and virtual reality (VR) and extended reality (XR) and the areas interpolated to all real-and-virtual combined environments. Our solutions are proven to help our customers improve their operational efficiency.

Today's virtual reality (VR) products are large goggles which seal off their view of the outside world. These VR devices are focused on gaming and training use cases because they occlude the user's field of vision from the real world. For AR glasses, historically, see-through HMDs displayed the real world using semi-transparent optics placed in front of the user's eyes. Both types of these HMDs were large and bulky and as a result, they had little mass-market appeal. We have developed thin optics, called waveguides, that are fully see-through and enable miniature display engines to be mounted in the temples of the HMD which allows the form factor of the Smart Glasses to be comparable to conventional eyeglasses. Our Smart Glasses and AR glasses are designed for all day use cases and are small enough to fit in a user's pocket or purse.

We believe that our waveguide optics and display engines offer a number of significant advantages over other wearable display solutions, including higher contrast, greater power efficiency, less weight, more compact size, and high brightness images for use outdoors. We also believe that our waveguide optics give us a substantial advantage over competitors' optics, including other waveguides, because our solution allows us to produce optics that are fully transparent when off while also delivering the high brightness required for AR and enterprise Smart Glasses applications.

We believe that our waveguides and compact display engine technologies are a key differentiator for enabling next generation AR and Smart Glasses hardware for the enterprise and broader market segments because they will ultimately allow us to make HMDs nearly indistinguishable from regular eyeglasses. We believe that key growth areas for us are the enterprise, medical, defense, and security markets. We are addressing most of these markets by developing and selling our own finished products and building a growing eco-system of software and services internally and with our value-added resellers, or VARs, developers and end customers. Another potential channel to these markets we are developing includes selling to OEMs where we intend to supply mass production of our waveguide optics and display engines to select third parties to use in their products.

We have developed our own intellectual property portfolio that includes patents, over 24 years of manufacturing know-how, software, proprietary processes, materials, and equipment to create high performance waveguides, and near-eye display products. We believe our technology, intellectual property portfolio and position in the marketplace give us a leadership position in AR and Smart Glasses products and waveguide optics and display engine technology.

Our History

Historically, we have focused on three markets: the consumer markets for entertainment and mobile video; Smart Glasses products for enterprise; and night-vision display electronics and rugged mobile displays for defense markets. We introduced our first HMD products over 23 years ago and we have offered numerous product models and versions with ever advancing features and capabilities that have served the three markets. In June 2012, we sold the assets that produced

products and provided services to military organizations and defense organizations, but effective October 2018, we renegotiated the exclusivity agreement with the company we sold our defense division to and, as a result, we have resumed marketing and sale initiatives directly into the defense and homeland security markets. All market restrictions in the defense space for the Company will expire in June 2022.

Overall Strategy

Our goal is to establish and maintain a leadership position as a worldwide supplier of wearable displays and computers including AR glasses and Smart Glasses solutions. In 2020, we began to offer and intend to continue to expand our offerings of hardware solutions with complementary suites of software solutions, including offerings from our VARs, focused across major markets, platforms, and applications, thus delivering end-to-end solutions to our customers. We strive to be an innovator in designing wearable display devices that can enable enterprise productivity hands-free applications, mobile video viewing, general entertainment, social media, and most importantly, AR applications. We seek to generate revenue growth through the continued introduction of new AR Smart Glasses, accessories, and software applications and solutions.

In July 2021, we also started an internal Vuzix Custom Solutions group (formerly Integrated Solutions Business Unit (ISBU)), which is focused on the acceleration of enterprise-centric solutions in both new and underserved market verticals. The group will support current and future partners by assisting in developing and implementing innovative SaaS-based solutions around specific use cases in various industries. The core team is streamlined and focused, with a strong background in building such solutions. The group has already been engaging with a number of organizations to drive requirements around solving problems and enabling integration into complex enterprise environments using Vuzix' existing smart glasses hardware enhanced by custom software.

To broaden our position as a leading provider of wearable display and computing products for AR and hands-free computing, we seek to:

- develop innovative products based on our unique technology for both specialized and large enterprise and medical markets, as well as defense and security;
- develop a suite of software applications that can take advantage of our products, offering these solutions bundled with our hardware and through our “app store”;
- sell our products or license our technology to third-party companies that would incorporate and sell them as a new product with their own brand name (OEM partners);
- promote and enhance the development of third-party software that can take advantage of our products, including offering apps and software through our own “app store”;
- build our own internal capabilities to deliver SaaS-based solutions directly to our customers;
- extend our innovative and proprietary technology leadership;
- enhance and protect our intellectual property portfolio;
- broaden and develop strategic relationships and partnerships;
- establish multiple revenue sources;
- improve brand recognition;
- provide excellent products and service; and
- attract and retain highly qualified personnel.

Our strategy is also to create a leadership position as a worldwide supplier of waveguide optics and near-eye display technology solutions for applications in high growth segments of the enterprise and consumer electronics industry by capitalizing on our experience and expertise in wearable displays and computers. We aim to provide waveguides, display engines and complementary optics to enable OEM customers to serve a variety of markets with new enhanced display electronic products. Some key elements of our OEM strategy to achieve these objectives include:

- strengthening our technology leadership;
- optimizing waveguide manufacturing efficiencies while protecting proprietary processes;
- developing OEM and mass production partnerships in the AR Smart Glasses market; and

- leveraging technology and marketing strategic relationships with third parties.

The Market

The wireless, IT, and entertainment industries have evolved considerably and continue to do so. The mobile phone has evolved into a ubiquitous, location-aware, smart mobile computing device. Mobile technology is redefining the way people interact with their world, both at work and play, and it has become an essential lifestyle management and entertainment tool personalized to users' unique needs. We believe that interactive AR content, AI, Edge Computing, internet of things (IoT), and speech-based cloud services will significantly change the way mobile computing devices are used and how content is delivered to the user, including by enabling new experiences that cannot be experienced in any other way. We believe head-worn displays that are hands-free can connect the digital world to the real world and have the ability to change the future of the computing industry.

Current mobile display technology is almost universally based on direct view screens. These displays are designed to be handheld and small to make portability easy. Our products provide hands-free virtual large screens that are interactive and fit into eyeglass form factors. VR-based head-worn displays block out surroundings for a fully immersive experience. AR-based displays are designed to be "see-through" or "see-around" and allow the user to still see and interact with their surroundings. They may contain one (monocular) or two (binocular) displays.

Our business for the last five years has primarily focused on enterprise, industrial and medical markets. We believe the demand for head-worn displays in these markets is being driven by such factors and expectations as:

- the continued growth of mobile computing devices;
- an increasing number of "ready to go" hands-free enterprise, commercial and medical applications for which our products are well suited;
- increasing demand for Internet, and cloud services' access "anywhere, anytime";
- the expansion of IoT that enables the exchange of information amongst smart connected devices to improve timeliness and visibility;
- the need for better efficiencies from training and on boarding to the ROI created by having hands-free mobile computing allowing frontline workers to work more efficiently and accurately;
- the need to solve complex problems remotely from medical technologists and doctors in a surgery to equipment in factories around the world; and
- the growing use of AR/XR applications that will drive the need for head-worn display solutions to replace the need to hold up handheld devices to use the applications.

As a result, we believe that our near-eye display technologies can significantly increase user satisfaction and allow for widespread AR adoption and applications.

Target Markets

We offer smart wearable display and computing products that enable development and deployment of AR applications. AR Smart Glasses enable the wearer to see computer-generated information, graphics or images projected into the real-world environment or upon an object that the user is observing.

Our target markets and applications by major sector are:

Enterprise

Our Smart Glasses products are currently focused on the enterprise market, including sectors such as industrial and medical. These Smart Glasses products run native Android applications within the glasses that, for example, allow them to stream video in real-time, scan bar codes, share visuals that are related to the work at hand and much more, all of which are highly useful for many enterprise applications. We believe that increasing demand for easy and instant data accessibility in a wide variety of commercial and industrial markets offer significant opportunities for our products. The

benefit of hands-free mobile displays and computers over a handheld device or laptop on a cart is significant. Most mobile workers need the use of their hands while working and having access to the information required while being hands-free can significantly improve their work performance, enhance safety, and reduce errors. Our Smart Glasses are being used for numerous applications including: remote service video support, wearable computer displays, viewing of wireless sensor data, quality assurance, hands-free access to work instructions such as assembly check lists and manuals, in-the-field maintenance, warehouse pick and pack, real-time viewing of remote images, and training and education. There are many reasons why enterprise users are adopting Smart Glasses, such as for:

- Increasing productivity;
- Eliminating travel costs;
- Improving worker safety;
- Lowering carbon footprint;
- Reducing worker errors; and
- Protecting worker health

Medical

The healthcare industry continues to be an early adopter of Smart Glasses to deliver a variety of benefits in and outside of the operating room. Our Smart Glasses are being used in operating rooms to enable MedTech experts, assisting surgeons, medical student training, patient care, and other healthcare professionals to see and communicate with surgeons in real-time. This unique solution empowers surgeons, medical device specialists, and other experts to work together remotely without incurring costly expenses to commute on-site for consultations and surgeries. Our Smart Glasses are also being used in telemedicine for remote calls made to provide a virtual presence within hospitals and senior care facilities that are video broadcast securely. Further our Smart Glasses provide virtual training, health care for patients in the ICU and the operating room, and assistance in performing virtual patient rounds.

Security and First Responders

Our Smart Glasses, particularly the versions that have a sunglasses look, have the potential to become disruptive and market changing products for security providers and first responders such as police and firefighters. We believe there are significant business opportunities in having the Vuzix Blade's unique form factor assist law enforcement and security personnel in keeping people safe or identifying suspicious persons or those associated with unlawful activities. The ability to deliver video feeds and real-time facial recognition and weapons detection alerts in a covert fashion to a Blade wearer literally provides security personnel and first responders with eyes in the back of their heads, allowing them to view and interact with their immediate surroundings while also staying remotely connected and informed.

Waveguide Optics and Display Engines

We believe our waveguide and display engine technology addresses the critical performance parameters for next generation AR products, including higher brightness, sharper resolution, true see-through capabilities, compact size, lower power consumption and longer life. As we manufacture our waveguides and display engines in higher volumes at reduced costs and capitalize on our waveguide manufacturing expertise, we believe that our products will be increasingly well-positioned to compete with other see-through optics and displays, particularly as demand expands for sophisticated mobile computing devices offering higher resolution and better image quality for AR/XR and Smart Glasses applications. We believe our waveguide and display engine technology addresses the critical performance parameters for next generation AR products, including higher brightness, sharper resolution, true see-through capabilities, compact size, lower power consumption and longer life.

Broader Markets

We believe that the most significant driver of longer-term wearable display market adoption will be the growing consumer demand for mobile access to ever larger volumes of information and entertainment content in smaller and wearable packages.

We also believe that augmentation of the real world with cloud-based information will change the future of computing and will result in broad adoption of AR smart glasses. This capability will allow smart phone users to be able to keep their phones in their pocket and at the same time still receive location-aware content overlaid with their real-world view. For example, while a user walks down the street, they could get directions and a Yelp score for the restaurant they are looking at or they could chase Pokemon Go game characters as if they were actually in the real world; all within the view of their smart glasses while leaving the phone in their pocket.

Products

We produce and sell AR Smart Glasses for a variety of applications. Our products are available with varying features and are currently offered as both monocular and binocular display systems.

Our current products include:

M400 and M4000 Smart Glasses (M series)

The M400 and M4000 (the current “M series”) products are our monocular smart glasses designed for enterprise, industrial, commercial, and medical markets. The M400 is Vuzix’ work-horse Smart Glasses offering with its enhanced capabilities and is our fourth model in this family. This product began commercial production in September 2019 and the M4000 was introduced to the market and entered volume production in September 2020. The M400 is equipped with an occluded nHD OLED display and the M4000 employs our latest see-through waveguide optics with a WVGA DMD display. These two products include an Android-based wearable computer similar in performance to a modern smart phone, enhanced with a wearable monocular display, speech control, camera, sensors and wireless connectivity capabilities. These Smart Glasses serve up the digital world “hands-free”, offering access to information to augment the real world, data collection and more. Monocular products, due to their single eye display, are best used for push notifications and “information snacking”. Integrated head tracking, camera, touchpad, buttons and speech recognition gives versatility to navigate and use these M-series Smart Glasses in almost any environment. These products include pre-installed apps that can be used to record and playback still pictures and broadcast quality video, track timed events, manage a user’s calendar, link to a phone, scan barcodes and much more. We offer connector applications, with annual subscriptions, that allows the smart glasses to join the most popular video conferencing applications including Microsoft Team, Zoom, Blue Jeans, WebEx Teams and others. These products can provide enhancements to existing workflows and open new opportunities in industrial, medical, retail, supply chain, remote help desk, and many more aspects of our customers’ businesses.

The M4000 offers all the performance and functionality of the M400, and features Vuzix’ proprietary waveguide optics to provide a non-occluded, see-through, heads-up display with higher display resolution.

Vuzix Blade® Smart Glasses

We introduced the Blade Smart Glasses as a monocular system at CES 2018. Blade 1.5, an upgraded replacement version entered mass production in the second half of 2020, which added stereo audio and an autofocus camera. We believe the Vuzix Blade is the natural evolution of AR smart glasses providing the user with a wide range of features and capabilities in a natural glasses form factor. The display imagery is projected visually out in front of the user like the heads-up display in a car. Current applications range from basic text messaging and answering the phone to overlaying mapping directions, menus, work instructions, documentation, biometrics and much more. The intuitive and feature packed Vuzix Blade OS allows the user to simply and intuitively navigate via simple swipes and taps, or leverage voice controls and external AI systems. This allows users to leave their phones in their pockets for most functions and adds the ability to connect the information being presented to the real world, including that from cloud-based speech AI platforms such as Amazon Alexa. The Blade also has connector applications, with annual subscriptions, that allows the glasses to join the most popular video conferencing applications including Microsoft Team, Zoom, Blue Jeans, WebEx Teams and others. We believe the Blade Smart Glasses is the first natural step to replacing the smart phone with a ubiquitous wearable device for all.

Vuzix Shield™ Smart Glasses

We introduced the Vuzix Shield Smart Glasses, which we believe is a revolutionary leap for enterprise AR smart glasses, as our first binocular AR system utilizing microLED displays at CES January 2022. The Vuzix Shield Smart Glasses offer all the computing power and performance of our M400 series platform and its related enhanced AR capabilities coupled with Vuzix' proprietary waveguide optics driven by miniature uLED stereo displays to provide a completely non-occluded see-through heads-up display. Housed inside lightweight, stylish, prescription-ready safety glasses combined with stereo HD cameras, the Vuzix Shield delivers a singular wearable AR experience. The Shield when commercially released will also have connector applications, with annual subscriptions, that allows the glasses to join the most popular video conferencing applications including Microsoft Team, Zoom, Blue Jeans, WebEx Teams and others.

Applications for Smart Glasses

Dozens of standard applications that are optimized for use with the growing lineup of Vuzix AR Smart Glasses are included on the devices and available for download from the Vuzix App Store. Many of these applications are similar to what is available to the customer with modern smart phones. These standard applications are designed to be simple to get started and easy to use, and we believe can immediately provide the fundamental benefits of Smart Glasses to novice and expert users alike.

Vuzix also resells a variety of other applications, including TeamViewer Frontline and Vuzix Remote Assist (VRA), which provide remote telepresence capabilities, otherwise known as “see-what-I-see” video collaboration and work instructions, among other features. VRA enables an operator, mechanic, field technician or consultant to communicate in a hands-free manner with a remote expert to drive “just in time” video support of a process or repair. These applications increase productivity and customer satisfaction by sharing information between field technicians and remote support experts. The VRA app enables Vuzix Smart Glasses customers to multiply their expert workforce, eliminate the high costs of travel, improve customer service levels and equipment operation and accelerate knowledge transfer and training. We are offering the VRA app on a monthly or one-year subscription basis. We have also developed “connector” applications to enable third party applications like Zoom, Cisco WebEx, Microsoft Teams, BlueJeans and others, for use with our smart glasses. In some cases these applications will be free to the user and in others we will charge annual fees.

Vuzix' position as a Smart Glasses supplier fills a market need that can be long lasting and could be the basis of the future of computing if the glasses are developed into a much larger integration within current and future technology ecosystems. The idea that the Smart Glasses alone will lead to major innovations and use cases is a typical “chicken and egg scenario” that has played out in almost every technology advancement. The “build it and they will come” mentality works only when you build the “whole thing” or if you have a large enough ecosystem. Vuzix' Smart Glasses have all the features and benefits consumers expect of a modern tablet or smart phone with the added benefit of being worn ergonomically on your head, allowing for hands-free operation, and at the same time connecting the visuals in the glasses to the real world. The steady advances in the Smart Glasses hardware are impressive but this alone is not what is driving market adoption to date. The “whole thing” is the solution to solve the customer pain point, problems and/or inefficiencies or creates a toolbox that allows for new innovations or products.

We believe Vuzix is gaining market awareness and has the opportunity to move up the value chain, increase market share and create a sustainable higher software subscription margin business by:

- Properly implementing a digital solution strategy that retains more of the customer relationship across a wide range of industries; and
- Improving Vuzix' participation in more areas of the customer relationship and having less reliance on VARs to deliver the full solution. When VARs are heavily involved in the middle of the relationship, Vuzix is primarily relegated to being only a product manufacturer and seller. There is significant customer value that can be captured by adopting a solutions model including recurring revenue opportunities.

App Store for Smart Glasses

We also have an app store on our website where users can download and purchase Smart Glasses applications, including third-party apps. We continue to foster the development of an ecosystem of third-party developers to offer applications and trials for their smart glasses apps, many of which will be sold on an industry common revenue share model, with the publisher receiving approximately 70% of the subscriptions collected. Supported by Vuzix' new App Store, developers can offer or sell their applications to all Vuzix Smart Glasses users, expanding into an ecosystem of AR applications for real world use today. The app store supports free, onetime fee, and paid subscription monetization models. The Vuzix third-party developer community is able to leverage the open Android platform of the Vuzix M-Series and the Vuzix Blade to bring new and creative ideas to life.

Waveguide Optics and Design Reference Kits

We selectively offer waveguide optics and related coupling optics combined with our compact proprietary display engine to form a see-through display module. We sell limited numbers of our waveguide optic design reference kits to select qualified potential OEMs/ODMs, which include a projector, waveguide optics and associated electronics, to help these customers evaluate our technologies and to assist their efforts to build and test new products incorporating our proprietary solutions.

Our strategy for addressing the broader mass market includes developing partnerships with both select consumer companies, including wireless communications carriers, and select high volume production manufacturing companies.

Custom Solutions and Engineering Solutions

We have in the past provided fully integrated wearable display systems, including head mounted displays, human computer interface devices, near-eye display-related engineering services and wearable computers to commercial, industrial and defense customers. As a result of the sale of our defense division in June 2012, we were precluded from pursuing general engineering services work with defense or security organizations. However, in October 2018, we signed an amendment to our agreement with the purchaser of our defense division that now allows us to sell our products to defense and security organizations, including business customers and governmental entity customers that primarily provide security and defense services. Such potential customers include police, fire fighters, EMTs, other first responders, and homeland and border security.

We have an outward facing section of our website dedicated to offering our OEM and engineering services around our waveguides and display technology. Waveguides require a display engine built for the purpose of the intended design. Vuzix is able to address most of these design specifications regardless of size, light coupling, power consumption, or resolution.

Defense and Security Products

As noted above, in early October 2018, we amended the 10-year non-compete restrictions with the buyer of our former defense division, TDG Acquisition LLC (DBA – Six15 Technologies (“Six15”). This amendment allows us to pursue opportunities related to the Company's smart glasses and waveguide optics technologies into these expanded market opportunities related to first responders, US Department of Defense, Security Organizations and the Military. Vuzix is now permitted to perform contract work with and sell its waveguide optics and display engines to the largest third-party defense suppliers around the world who wish to incorporate Vuzix near-eye display or HMD technologies into the products and systems that they sell to Military Organizations. All these non-compete restrictions will expire on June 15, 2022 and we can directly pursue opportunities with no further requirement to pay commissions to Six15.

Product Development

We believe that the continued introduction of new products in our target markets is essential to our growth. Our products tend to have two to three-year life cycles. We have assembled a group of highly skilled engineers who work internally as well as with external consultants to continue our product development efforts. Our primary development

efforts are focused on waveguide optics (and their manufacture), projection engines, new micro-display technologies, low-power electronic designs, firmware and wearable computing software, and the design and ergonomics of wearable displays. Our display product development efforts are focused towards continually enhancing the resolution, performance and manufacturability of our display products. We expect to increase our research and development expenditures in the future and as our revenues grow. We have also acquired and licensed technologies developed by third parties and we may continue to do so in the future.

Technology

We believe that it is important to make substantial investments in research and development to maintain our competitive advantage. The development and procurement of intellectual property rights relating to our technologies is a key aspect of our business strategy. We believe that it is now technologically feasible to improve upon the weight, ergonomics, optical performance, see-through capabilities, luminance, power efficiency, compactness, field-of-view and resolution of the current generation of virtual displays and display components. “Early technology adopters” and “prosumer” consumers have comprised the majority of the purchasers of our wearable display and computing products to date and similarly within the enterprise customer base for our Smart Glasses. We expect to continue to improve our products through our ongoing research and development and advancements made by our third-party suppliers of key components.

We believe that the range of our proprietary technologies gives us a significant competitive advantage. Our technologies relate to advanced optics systems including passive and active see-through imaging waveguides, micro-projection display engines, and specialized software drivers and applications for wearable displays and computers. We also have a portfolio of trade secrets and expertise in nano-imprinting using quartz mold substrates, nano structure embossing, and engineering tool-sets for the design and manufacturing of diffractive waveguide optics. We are also performing research and development work on laser-based engines to drive scanned images into holograms, with the goal of such systems to offer next generation waveguides capable of 100 plus degree fields-of-view.

We believe that display engines are also important for commercializing wearable displays. We have developed a proprietary micro digital light processing (DLP) based engines and are working on microLED engines designed specifically for our waveguide optics solutions. We are currently working with multiple partners in the microLED arena and have unveiled our first binocular AR Smart Glasses called the Shield at CES 2022. These next generation waveguides and display engines have allowed us to shrink the entire assembly to fit in the space available in a typical off-the-shelf pair of sports sunglasses.

We entered into a technology license agreement with Nokia Corporation in August 2011 for their Exit Pupil Expanding (EPE) optics technology. This agreement was amended in October 2017 to allow us greater flexibility with sub-licensing and preferable royalty terms. EPE technology is an important foundation of our diffraction-based waveguide optics technology.

In October 2017 and June 2021, we acquired certain IP and patent applications from the inventor/seller related to holographic optics and display engines for “image and wave field projection through a diffusive media”. This technology is still in active development and we are making progress towards our first functional solution.

Major technologies that we employ in our products include:

Micro-display Optics: Optical components represent a significant cost of goods for both us and our competitors. This cost is a function of the physical size of the micro-display and the cost of the supporting optics. We have developed thin and lightweight optics that can be integrated with very small micro-displays where we can more closely match conventional eyewear frames in size and weight. These new optics and displays provide what we believe are significantly improved ergonomics compared to competing wearable display solutions.

See-Through Waveguides: We have developed a range of patents and patents pending around our see-through waveguides, as well as passive, dynamic and diffractive optics-based waveguides that are the basis for some of our future slim wearable display AR and smart glasses products. We are striving to develop ultra-compact micro-display engines to

magnify and focus the light from a display into a user's eye. Our development goal with these waveguides is to create AR-based wearable displays that will appear to others as practically indistinguishable from today's conventional sunglasses by most measures, including comfort, size, weight and ergonomics.

Nanoimprinting: We continue to develop a portfolio of trade secrets and expertise in nanoimprinting for use in our waveguide optics. We believe these technologies are essential to the production of our approximately 1.2 mm thick see-through lenses which we believe are the cornerstone to making fashionable eyeglass-styled Smart Glasses. We have developed technology for waveguide design and production, including: tool design and creation, custom designed software for grating structures and layout, lithography processes, high index low shrinkage polymers and other materials, mold treatments, automation equipment and test/QA processes and procedures, to name a few.

Custom Display Engines: We have patents and patents pending on intellectual property around micro DLP display engines. We are also working on laser modulated and microLED engines designed specifically for our waveguide optics solutions. We are currently working with multiple partners on microLED engines and have demonstration systems that we have begun showing confidentially to select partners and potential OEM customers. We are also performing research and development work on laser-based engines to drive scanned images into holograms, with the goal of such systems to offer next generation waveguides capable of 100 plus degree fields-of-view.

Patents and other Intellectual Property

We have an intellectual property policy which has as its objectives: (i) the development of new intellectual property to further our intellectual property position in relation to personal display technology; and (ii) the maintenance and protection of our valuable trade secrets and know-how. We seek to achieve these objectives through the education and training of our engineering staff and the adoption of appropriate systems, policies and procedures for the creation, identification, and protection of intellectual property.

Our general practice is to file patent applications for our technology in the United States, Europe, Japan, and in additional countries, including Canada and China for inventions which we believe have the greatest potential. We file and prosecute our patent applications in pursuit of the most extensive fields of protection possible including, where appropriate, the application of the relevant technology to the broader display industry.

We believe that our intellectual property portfolio, coupled with our supplier relationships and accumulated experience in the near-eye display field, gives us an advantage over potential competitors. We also believe our copyrights, trademarks, and patents are critical to our success and we intend to maintain and protect these. We also rely on proprietary technology, trade secrets, and know-how, including manufacturing processes and procedures, which are not patented. To protect our rights in these areas, we require all employees and, where appropriate, contractors, consultants, advisors and collaborators, to enter into confidentiality, invention assignment and non-competition agreements with us.

Our technologies enable us to provide low-cost, small form factor, high-resolution wearable display products. To protect our technologies, we have developed a patent portfolio which currently consists of 125 issued U.S. and foreign patents and 116 pending U.S. and foreign patent applications. We are also currently preparing several invention disclosures for the purposes of submitting design and utility patent applications. Our U.S. and foreign patents expire on various dates to June 13, 2037. In addition, in connection with the sale of our defense division in 2012, we received a worldwide, royalty-free, assignable grant-back license to all the patents and other intellectual property sold for use in the manufacture and sale of products in the consumer markets.

In addition to our various patents, we have 7 registered U.S. trademarks and 73 trademark registrations worldwide.

Competitors

The near-eye wearable computer or personal display and mobile device industry in which we operate is highly competitive and evolving rapidly. We compete against both direct view display technology in smart phones and tablets and wearable display technology. We believe that the principal competitive factors in the personal display industry include

image size, image quality, image resolution, power efficiency, manufacturing cost, weight and dimension, feature implementation, AR capabilities, ergonomics, style, hands-free capabilities and, finally, the interactive capabilities of the overall display system.

Aside from direct view displays, we also have competitors who produce near-eye personal displays or wearable displays. For the past decade, most of these products were mainly low-resolution, bulky in size, ergonomically deficient, costly, and heavy in their power requirements.

Competition – Binocular Wearable Display Products

Vuzix AR Smart Glasses competitors include binocular wearable displays and virtual reality systems, using micro-displays or smaller flat panels. Examples of such companies include or have included Carl Zeiss, Seiko Epson (Epson), Sony Corporation, Microsoft Corporation, Avegant Corp., Meta/Oculus/Facebook, HTC Corporation, Razer Inc. and many others. Some of these firms have discontinued their efforts while others have introduced VR viewers themselves such as HTC, HP and Lenovo. We believe these competitive products have received limited customer acceptance due to their being bulky and having non-user-friendly designs. Despite their size, VR headsets from companies like Facebook/Meta and Sony have been selling in the millions of units, primarily for game applications. VR systems are either standalone devices or require a wire to be connected to a PC to operate. Other companies that have stated their intention to enter this market when their product development is complete with either finished products or components with optics and display engines are Lumus, WaveOptics (acquired by Snap), and Digilens.

Competition – AR Glasses

In the AR markets, there are currently few competitors with most of this market currently aimed at the high-end and research markets. Companies that have offered or are offering products or intend to do so in this area include Microsoft Corporation, Sony Corporation, Epson, Atheer, Inc., DAQRI, Magic Leap, ODG, Nreal and CastAR. Further, industry watchers have speculated that companies such as Apple, Google, Snap, and Oculus/Facebook/Meta may offer or support AR wearable display products in the future, but to date, no specific product launch details have been officially announced. Today many of these products are fairly bulky and are typically tethered to an external controller. Many are being sold as AR Smart Glasses and are currently targeted at enterprise and academic researchers. The most complete and functional systems today are the Microsoft HoloLens II and the Magic Leap One, both of which cost \$2,295 - \$3,500 per unit.

Competition – Monocular Smart Glasses and Wearable Display Products

Although several companies produce monocular wearable displays, we believe that sales of their products have been limited. To date, the market opportunity for monocular products other than night vision products has been limited primarily to trial tests and smaller rollouts in enterprise markets rather than broad commercial volume purchases. Competitors in these markets include or have included: Google/Alphabet, Lenovo, RealWear, Iristick, Liteye Systems, Inc., Lumus, Zebra Technologies (inclusive of the business unit formerly part of Motorola), Six-15 Technologies, LLC (the purchaser of our defense division), Optinvent, Shimadzu Corporation, Sony Corporation, Kopin Corporation, Tooz, Creative Display Systems, Brother, Garmin, BAE Systems, Focals by North (acquired by Google), and Rockwell Collins.

Several Japanese electronics companies including Hitachi, Murata Manufacturing Co., Sony Corporation, WESTUNITIS, and Olympus have or had announced monocular smart glasses systems for industry and many have exited the business over the last two years. There are also several Chinese based companies that have been showing monocular smart glasses products, including Lenovo but their sales activities thus far have been somewhat limited and focused on Asia. We expect that we will encounter competition in the future from major consumer electronics companies and suppliers of imaging and information products for defense applications.

There is competition in all types of products we manufacture, from both large and small companies. The principal points of competition for these products include, among other factors: price, product performance, the availability of supporting applications, and the experience and brand name of the particular company and history of its dealings in such products. We believe that our monocular products match or exceed the display products currently offered by our competitors.

Competition – Waveguides and Display Engines

There are a limited number of manufacturers of waveguide optics, all targeted at OEM producers of AR and smart glasses. Competitors to our waveguide products include Lumus, WaveOptics (acquired recently by Snap), Digilens, Dispelix, Optinvent and several others. In addition, several new waveguide manufacturers from China have begun demonstrating their solutions at recent trade shows. Snap Inc. recently purchased WaveOptics and it appears that Snap is planning to use such waveguides for their own internal solutions and likely no longer will be potentially competitive as a waveguide component supplier.

Sales and Marketing

Sales

Our strategy is to sell our products and components both directly and through distributors and value-added resellers (VARs – also referred to as Vuzix Integration Partners or VIPs), and on a select basis to OEMs. As a result, we have distinct strategies for the sales of our products.

In the Smart Glasses and AR markets, we are currently focused on the enterprise space and as such are building strategic marketing relationships with software firms to address and support enterprise customers. We are, in parallel, developing a VAR network with leading companies in various vertical markets from warehousing to field service to medical. As these VARs finish their value-added software and services offerings, we expect them to roll-out their finished solutions to their respective customer bases. Some VARs, after qualification, are being designated as a Vuzix Integration Partner or VIP. Such VIP partners gain early access to our new Smart Glasses hardware, receive first access to the initial commercial shipments, and get access to co-marketing support, discounts and more. We are also supporting select larger key accounts with our in-house direct sales team. For our Smart Glasses, we are also developing an ecosystem with application developers from around the world. We have introduced our own hosted application store where our Smart Glasses customers can download and purchase applications and software developer kits.

We currently sell our products internationally through resellers, distributors, direct to commercial customers, and via online stores and various Vuzix operated web stores in Europe and Japan. Our international focus is currently on Japan and the European Union (including the UK, the “EU”). In Japan, we have a branch sales and service office and a small warehouse in Tokyo. We employ two full-time staff in Japan. We have a wholly-owned subsidiary, Vuzix (Europe) Limited, through which we conduct our business in the EU and Middle Eastern markets. We maintain a small European sales office in Oxford, England that is staffed by full time sales consultants. For warehousing, we have contracted with a third-party fulfillment center based in the UK to service our customers in the EU. In Q1-2022, post Brexit, we established a third-party logistics fulfillment center relationship in the Netherlands to better serve our EU customers. We also currently serve other APAC customers through a North American West Coast sales office.

For customer support for the Americas and Europe, Middle East and Africa (EMEA), we have contracted with a third-party end user technical support firm that provides 16 hours of customer and technical support daily.

We intend to primarily provide our waveguide and miniature display engine modules and optics components to select OEMs to incorporate into their branded products and sell through their own well-established distribution channels. An OEM/ODM design cycle typically requires between 6 and 24 months, depending upon the uniqueness of the market, and the complexity of the end product. Because our waveguides and display engines are the main functional component that defines the imaging as well as look and feel of many of our potential OEM customers' end products, we intend to work closely with these customers to provide technical assistance throughout their product evaluation and any eventual integration process.

We believe that the technical nature of our potential OEM products such as waveguides and display projectors with micro-displays, demands close relationships with such customers. Our sales and marketing staff, assisted by our technical staff and senior management, visit prospective and existing customers worldwide on a regular basis. We believe these contacts are vital to the development of a close, long-term working relationship with our OEM customers, and in

obtaining regular forecasts, market updates and information regarding technical and market trends. We also participate in industry specific trade shows and conferences.

Marketing

Our marketing and sales group in conjunction with external firms is responsible for product management, planning, advertising, marketing communications, and public relations. We have both internal and external public relations efforts in the U.S. and UK. We also employ marketing firms to help prepare brochures, packaging, tradeshow messaging and advertising campaigns, focused on either the enterprise or consumer end markets. Most of our products are currently sold under the Vuzix brand name. We seek to have Vuzix become known as one of the premier suppliers of wearable display products for enterprise applications and AR smart glasses. We currently undertake specific marketing activities as needed, including, but not limited to:

- product reviews, case studies and promotions in trade publications;
- case studies on successful enterprise uses of Smart Glasses and AR;
- product and technology views for our website and social media;
- internet and search engine advertising and targeted emails;
- public relations; and
- trade shows and event sponsorships.

We engage in select marketing efforts that are intended to drive customers to our products and to grow awareness of our AR Smart Glasses and wearable displays in general. Public relations and product videos are an important aspect of our marketing and we intend to continue to distribute samples of our products to key industry participants. We intend to focus our marketing efforts for the next 12 months on:

- distinguishing our AR Smart Glasses products from current competitors and by offering products with superior performance and advanced optics relative to those of our competitors;
- working with third-party software developers to support the unique capabilities of our new products; and
- creating brand awareness with the press and general public of Vuzix and our products, with particular emphasis on our new forthcoming waveguide-based products.

Our Smart Glasses are sold through valued-added resellers, direct to end customers, through our webstore and through a limited number of third party online stores, such as Amazon. Our website, www.vuzix.com, is an important part of our direct sales efforts.

Engineering Services and OEM Products

We primarily respond to sales inquiries for our engineering services programs and OEM component requests directly and usually in response to inbound inquiries. We do not offer “works for hire” services at Vuzix but rather offer our services to opportunities that could result in advancing our technology or end up in a long-term supply or OEM relationship. We believe we have established a strong reputation for quality, performance, and innovation for wearable near-eye display systems that will be attractive to many types of commercial users who want to leverage our services and products within their businesses. Our design and engineering staff are actively involved with customers during all phases of prototype design through production by providing engineering data, up-to-date product application notes, regular follow-up and technical assistance.

We continue to receive inbound requests for engagement related to our proprietary waveguide optics and miniature display engines from some of the world's largest consumer and mobile electronics firms. Our business strategy is to commercialize our waveguide and display engine technologies and products to permit select ODMs and OEMs to integrate and embed our technologies and products in a way that best matches their unique capabilities and timeline for bringing their products to market. We now formally offer these solutions actively on our website.

Manufacturing

We purchase product components from our suppliers, engage third-party contract manufacturing firms to perform electronic circuit board and cable assemblies, and now do the final assembly of our products primarily in our West Henrietta, New York facility. From 2016 to the summer of 2019, we used primarily contract manufacturers in China to assemble our products. We are experienced in the successful production of our products in moderate volumes. Our current facilities are capable of tens of thousands of finished products in total annually, and we believe producing out of these facilities at these levels is more economical and easier to manage than through third parties. We also manufacture all our waveguide optics in our cleanroom environments at our West Henrietta, New York facility. We evaluate contract manufacturers and component suppliers on an ongoing basis, including whether or not to utilize new or alternative contract manufacturers or component suppliers. However, we also expect to manufacture all our waveguide optics only at our West Henrietta, New York facility.

We currently purchase almost all of the micro-displays used in our products from Sony Corporation and Texas Instruments. Our relationship with these micro-display suppliers is generally on a purchase order basis and none have a contractual obligation to provide adequate supply or acceptable pricing to us on a long-term basis, nor do we have any contractual obligation to purchase micro-displays from them. We have operated this way for over a decade with these suppliers. Our Cobra II display engine is based on our proprietary design and is exclusively manufactured for us by a firm in Asia and it incorporates a DLP engine from Texas Instruments. We generally procure our other non-micro-display components and products from our vendors on a purchase order basis without any long-term commitments. Many of the raw materials used in our components are standard to the consumer electronics and computer industry. We provide forecasts that allow our contract manufacturers to stock component parts and other materials and plan capacity. Our contract manufacturers procure raw materials in volumes consistent with our forecasts, manufacture and/or assemble the products and perform tests according to our specifications. In some cases, we procure specific components and either sell them or consign them to our contract manufacturers. Products are either shipped to our customers or shipped to our West Henrietta, New York headquarters to be inventoried as finished goods. We currently use several manufacturing sources in Asia where we have located some of our tooling.

While we do not manufacture our components, other than waveguides, we own the tooling that is used to make our custom components. Some of our accessory products are sourced from third parties as finished goods. We typically have them print our Vuzix brand name on these products if they are co-branded. Such third-party products represented less than 5% of our sales in last three fiscal years.

Our manufacturing is not currently subject to seasonal variations, but in the future, depending upon our customers' product mix, we may be affected by seasonal fluctuations which could affect working capital demands.

We work with third-party fulfillment partners in the UK and EU that deliver our products to customers in Europe, the Middle East, and Africa, which allows us to reduce order fulfillment time, reduce shipping costs, and improve inventory flexibility.

Backlog

There is a relatively short cycle between order and shipment of our product sales. Most purchase orders we receive are subject to rescheduling or cancellation by the customer with no or limited penalties. In regard to sales of custom products and waveguides to our OEM customers, we believe that the backlog metric is of limited utility in predicting future sales because all these OEM customers operate on a ship-to-order basis. Therefore, we believe at this time that backlog information is not material to the understanding of our business.

Employees

As of March 2, 2022, we had 106 full-time employees in North America, of which 45 are in research and development and engineering services support. In Japan we have 2 full-time employees to manage our Asian sales activities. In England we have 2 full-time contractors to manage our European sales and marketing activities.

Available Information

We make available free of charge through our website, www.vuzix.com, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and our proxy statements and other reports that we file or furnish with the SEC as soon as reasonably practicable after they are filed or furnished, as well as certain of our corporate governance policies, including the charters for the Board of Directors' audit, compensation and nominating and corporate governance committees and our code of ethics, corporate governance guidelines and whistleblower policy. We will also provide to any person without charge, upon request, a copy of any of the foregoing materials. Any such request must be made in writing to us, c/o Investor Relations, Vuzix Corporation, 25 Hendrix Road, West Henrietta, NY, 14586.

Information about Geographic Revenue

Information about geographic revenue is described in Note 19, "Geographic and Other Financial Information" in the notes to our consolidated financial statements.

History - Corporate

We were incorporated in Delaware in 1997 as VR Acquisition Corp. In 1997, we acquired substantially all of the assets of Forte Technologies, Inc. (Forte), which was engaged in the manufacture and sale of Virtual Reality headsets and the development of related technologies. Forte was originally owned and controlled by Kopin Corporation, one of our prior micro-display suppliers. Most of the technologies developed by Forte are now owned and used by us.

Reference in this report to "Vuzix", the "Company", "we," "us," "our" and similar words refer to Vuzix Corporation and its wholly-owned subsidiary.

Item 1A. Risk Factors

An investment in our securities involves a high degree of risk. An investor should carefully consider the risks described below, together with all of the other information included in this annual report, before making an investment decision. Our business, financial condition or results of operations could suffer as a result of these risks. In that case, the market value of our securities could decline, and an investor may lose all or part of his or her investment.

Summary of Risk Factors:

- *We have incurred net losses since our inception and may continue to incur losses.*
- *We operate in a highly competitive market and the size, resources and brand name of some of our competitors may allow them to compete more effectively than we can, which could result in a loss of our market share and a decrease in our revenue and profitability.*
- *We depend on advances in technology by other companies and if those advances do not materialize, some of our anticipated new products could be delayed or cancelled.*
- *Our products could infringe on the intellectual property rights of others.*
- *If we lose our rights under our third-party technology licenses, our operations could be adversely affected.*

Risks Related to Our Business

We have incurred net losses since our inception and may continue to incur losses.

We reported a net loss of \$40,377,160 for the year ended December 31, 2021, a net loss of \$17,952,172 for the year ended December 31, 2020, and a net loss of \$26,476,370 for the year ended December 31, 2019. We have an accumulated deficit of \$203,072,143 as of December 31, 2021.

We may not achieve or maintain profitability in the future. We will need to increase sales in order to achieve and maintain profitability. In addition, we expect that our expenses relating to product development and research, sales and marketing, as well as our general and administrative costs, may increase as our business grows. If we do not achieve and maintain profitability, our financial condition will ultimately be materially and adversely affected and we would eventually be required to raise additional capital. We may not be able to raise any necessary capital on commercially reasonable terms or at all. If we fail to achieve or maintain profitability on a quarterly or annual basis within the timeframe expected by investors, the market price of our common stock may decline.

We operate in a highly competitive market and the size, resources and brand name of some of our competitors may allow them to compete more effectively than we can, which could result in a loss of our market share and a decrease in our revenue and profitability.

The market for head-worn display devices, including AR and Smart Glasses, is highly competitive. Further, we expect competition to intensify in the future as existing competitors introduce new and more competitive offerings alongside their existing products, and as new market entrants introduce new products into our markets. We compete against established, well-known diversified consumer electronics manufacturers such as Samsung Electronics Co., Sony Corporation, LG Electronics (LGE), HTC, Lenovo, and large software and other products companies such as Alphabet Inc. (Google), Microsoft Corporation, Meta (Facebook) and Snap. Many of our current competitors have substantial market share, diversified product lines, well-established supply and distribution systems, strong worldwide brand recognition and greater financial, marketing, research and development and other resources than we do. In addition, many of our existing and potential competitors enjoy substantial competitive advantages, such as:

- longer operating histories;

- the capacity to leverage their sales efforts and marketing expenditures across a broader portfolio of products;
- broader distribution and established relationships with channel partners;
- access to larger established customer bases and known branding;
- greater resources to fund research and development and to make acquisitions;
- larger intellectual property portfolios; and
- the ability to bundle competitive offerings with other products and services.

Moreover, smartphones, tablets, and new wearable devices with ever growing larger video display screens, including foldable and expandable screens, and ever increasing computing power have significantly improved the mobile personal computing experience. In the future, the manufacturers of these devices, such as Apple Inc., Samsung, LGE, Lenovo, Fitbit, Google, Snap, Garmin, Meta/Facebook, Microsoft and others may design or develop products similar to ours. In addition to competition or potential competition from large, established companies, new companies may emerge and offer competitive products. Further, our current and prospective competitors may consolidate with each other or acquire companies that will allow them to develop products that better compete with our products, which would intensify the competition that we face and may also disrupt or lead to termination of our distribution, technology and content partnerships. Increased competition may result in pricing pressures and reduced profit margins and may impede our ability to increase the sales of our products, any one of which could substantially harm our business and results of operations.

Our lack of long-term purchase orders and commitments from our customers may lead to a rapid decline in our sales.

All of our customers issue purchase orders solely at their own discretion, often shortly before the requested date of shipment. Our customers are generally able to cancel orders (without penalty) or delay the delivery of products on relatively short notice. In addition, our current customers may decide not to purchase products from us for any reason. If those customers do not continue to purchase our products, our sales volume could decline rapidly with little or no warning.

We cannot currently rely on long-term purchase orders or commitments to protect us from the negative financial effects of a decline in demand for our products. We typically plan our production and inventory levels based on internal forecasts of customer demand, which are highly unpredictable and can fluctuate substantially. Historically, our OEM customers are required to give us rolling forecasts and issue non-cancellable purchase orders but they have options to reschedule or pay cancellation fees. The uncertainty of product orders makes it difficult for us to forecast our sales and allocate our resources in a manner consistent with our actual sales. Moreover, our expense levels and the amounts we invest in capital equipment and new product development costs are based in part on our expectations of future sales and, if our expectations regarding future sales are inaccurate, we may be unable to reduce costs in a timely manner to adjust for sales shortfalls. As a result of our lack of long-term purchase orders and purchase commitments, we may experience a rapid decline in our sales.

As a result of these and other factors, investors should not rely on our revenues and our operating results for any one quarter or year as an indication of our future revenues or operating results. If our quarterly revenues or results of operations fall below expectations of investors or public market analysts, the price of our common stock could fall substantially.

If we do not effectively maintain and further develop our sales channels for our products, including developing and supporting our value added resellers (VARs), distributors and retail sales channels, our business could be harmed.

We depend upon effective sales channels to assist us in reaching the customers who are the ultimate purchasers of our Smart Glass and AR products. We primarily sell our products either from our in-house sales team directly to enterprise, medical and end users or through our website and VARs.

Our distributors, third-party online resellers and VARs generally offer products from several different manufacturers. Accordingly, we are at risk that these distributors, resellers and VARs may give higher priority to selling other companies' products. If we were to lose the services of a distributor, online reseller or VAR, we might need to find another in that area, and there can be no assurance of our ability to do so in a timely manner or on favorable terms. Further, our resellers and distributors can at times build inventories in anticipation of future sales, and if such sales do not occur as rapidly as they anticipate, our resellers and distributors will decrease the size of their future product orders. We are also subject to the risks of our distributors, resellers and VARs encountering financial difficulties, which could impede their effectiveness and also expose us to financial risk if they are unable to pay for the products they purchase from us. Any reduction in sales by our current distributors or VARs, loss of key distributors and VARs or decrease in revenue from our distributors and VARs could adversely affect our revenue, operating results and financial condition.

Our products require ongoing research and development and we may experience technical problems or delays, which could lead our business to fail.

Our research and development efforts remain subject to all of the risks associated with the development of new products based on emerging and innovative technologies, including, for example, unexpected technical problems or the possible insufficiency of funds for completing development of these products. If we experience technical problems or delays, further improvements in our products and the introduction of future products could be adversely impacted, and we could incur significant additional expenses and our business may fail.

We depend on advances in technology by other companies and if those advances do not materialize, some of our anticipated new products could be delayed or cancelled.

We rely on and will continue to rely on technologies (including micro-displays, mobile computing electronics and operating systems) that are developed and produced by other companies. The commercial success of certain of our planned future products will depend in part on advances in these and other technologies by other companies. We may, from time to time, contract with and support companies developing key technologies in order to accelerate the development of them for our specific uses. Such activities might not result in useful technologies or components for us. We are attempting to mitigate this risk by exploring ways to develop our own micro-display technologies using LED, microLED and laser scanning displays, but there can be no assurance that we will be successful in doing so.

If micro-display-based personal or near-eye displays do not gain greater acceptance in the market for mobile displays, our business strategy may fail.

The mobile display market is dominated by displays larger than one-inch, most of which are based on direct view liquid crystal display, or LCD and organic light emitting display, or OLED technology. A number of companies have made and continue to make substantial investments in, and are conducting research to improve characteristics of, handheld direct view LCDs and OLED displays. Many of the leading manufacturers of these larger direct view LCDs, including LG Electronics, Royal Philips Electronics, Samsung Electronics Co., Ltd., Sony Corporation, HiMax, Omnivision, Citizen, and Sharp Corporation, are large, established companies with global marketing capabilities, widespread brand recognition and extensive financial resources. Advances in direct view LCD and OLED technology, microLED or other technologies, including foldable and stretchable displays may overcome their current market limitations and permit them to remain or become more attractive technologies for personal viewing applications, which could limit the potential market for our near-eye display and computing technology and cause our business strategy to fail.

It is difficult to assess or predict with any certainty the potential size, timing and viability of market opportunities for our micro-display-based AR Smart Glasses products or their level of market acceptance. Market acceptance of AR and Smart Glasses technology will depend, in part, upon end-user acceptance of near-to-eye displays and upon micro-display technology providing benefits comparable to or greater than those provided by alternative direct view display technology at a competitive price. Smart Glasses and AR products work best when used close to the eye, which may not be acceptable to consumers. Such acceptance may depend on the relative complexity, reliability, usefulness and cost-effectiveness of our near-eye display products compared to other display products available in the market or that may be developed by our competitors. In addition, our products are not designed for a shared experience amongst multiple viewers at the same time. Potential customers may be reluctant to adopt our Smart Glasses and AR products because of concerns surrounding

perceived risks relating to use and the fact that it is a new technology. Further, over half the world's adult population needs some level of vision correction which adds complexities in the design and ergonomics of any AR Smart Glasses products. If end-users fail to accept near-to-eye displays in the numbers we anticipate or as soon as we anticipate, the sales of our Smart Glasses and AR products and our results of operations would be adversely affected and our business strategy may fail.

There are a number of competing providers of micro-display-based personal display technology, including smart glasses, and we may fail to capture a substantial portion of the personal wearable display market.

In addition to competing with direct view displays, we also compete with micro-display-based personal display technologies that have been developed by other companies. Our primary personal display competitors are or have included Carl Zeiss, Inc., Sony, Epson, Alphabet (Google), Brother International, 5DT Inc., eMagin Corporation, Meta/Facebook (Oculus), Avegant, Kopin Corporation, Magic Leap, Lenovo, Microsoft, HTC, MicroVision, Inc., Lumus Ltd., Kaiser Electro Optics Inc., Garmin, Optinvent, HTC Valve, LGE, N-Real, Epson, Zebra and Accupix of Korea. Numerous other start-up companies have announced their intentions to offer smart glasses and AR products and developer kits in the near future. Further, industry blogs have speculated that companies such as Apple may offer AR glasses in the near future.

Most of our competitors have greater financial, marketing, distribution and technical resources than we do. Moreover, our competitors may succeed in developing new micro-display-based personal display technologies and near-eye products that are more affordable or have more desirable features than our technology. If our products are unable to capture a reasonable portion of the smart wearable display market, our business strategy may fail.

Product quality issues and a higher-than-expected number of warranty claims or returns could harm our business and operating results.

The products that we sell could contain defects in design or manufacture. Defects could also occur in the products or components that are supplied to us. There can be no assurance we will be able to detect and remedy all defects in the hardware and software we sell, which could result in product recalls, product redesign efforts, loss of revenue, reputational damage and significant warranty and other remediation expenses. Similar to other mobile and consumer electronics, our products have a risk of overheating in the course of usage or upon malfunction. Any such defect could result in harm to property or in personal injury. If we determine that a product does not meet product quality standards or may contain a defect, the launch of such product could be delayed until we remedy the quality issue or defect. The costs associated with any protracted delay necessary to remedy a quality issue or defect in a new product could be substantial.

We generally provide a one-year warranty on all of our products, except in certain European countries where it can be two years if it is deemed a consumer-focused product. The occurrence of any material defects in our products could expose us to liability for damages and warranty claims in excess of our current reserves, and we could incur significant costs to correct any defects, warranty claims or other problems. In addition, if any of our product designs are defective or are alleged to be defective, we may be required to participate in a recall campaign. In part due to the terms of our warranty policy, any failure rate of our products that exceeds our expectations may result in unanticipated losses. Any negative publicity related to the perceived quality of our products could affect our brand image and decrease retailer, VAR, distributor and consumer confidence and demand, which could adversely affect our operating results and financial condition. Further, accidental damage coverage and extended warranties are regulated in the United States at the state level and are treated differently within each state. Additionally, outside of the United States, regulations for extended warranties and accidental damage vary from country to country. Changes in interpretation of the regulations concerning extended warranties and accidental damage coverage on a federal, state, local or international level may cause us to incur costs or have additional regulatory requirements to meet in the future in order to continue to offer our support services. Our failure to comply with past, present and future similar laws could result in reduced sales of our products, reputational damage, penalties and other sanctions, which could harm our business and financial condition.

Our products could likely experience declining unit prices and we may not be able to offset that decline with production cost decreases or higher unit sales.

In the markets in which we compete, prices of established consumer electronics displays, personal computers, and mobile products tend to decline significantly over time or as new enhanced versions are introduced, frequently every 12 to 24 months. In order to maintain adequate product profit margins over the long term, we believe that we will need to continuously develop product enhancements and new technologies that will either slow price declines of our products or reduce the cost of producing and delivering our products. While we anticipate many opportunities to reduce production costs over time, we may not be able to reduce our component costs. We expect to attempt to offset the anticipated decrease in our average selling price by introducing new products, increasing our sales volumes or adjusting our product mix. If we fail to do so, our results of operations will be materially and adversely affected.

Our products could infringe on the intellectual property rights of others.

Companies in the consumer electronics, wireless communications, semiconductor, IT and display industries steadfastly pursue and protect intellectual property rights, often times resulting in considerable and costly litigation to determine the validity of patents and claims by third parties of infringement of patents or other intellectual property rights. Our products could be found to infringe on the intellectual property rights of others. Other companies may hold or obtain patents or inventions or other proprietary rights in technology necessary for our business. Periodically, other companies inquire about our products and technology in their attempts to assess whether we violate their intellectual property rights. If we are forced to defend against infringement claims, we may face costly litigation, diversion of technical and management personnel, and product shipment delays, even if the allegations of infringement are unwarranted. If there is a successful claim of infringement against us and we are unable to develop non-infringing technology or license the infringing or similar technology on a timely basis, or if we are required to cease using one or more of our business or product names due to a successful trademark infringement claim against us, it could adversely affect our business.

Our intellectual property rights and proprietary rights may not adequately protect our products.

Our commercial success will depend substantially on our ability to obtain patents and other intellectual property rights and maintain adequate legal protection for our products in the United States and other countries. We will be able to protect our intellectual property from unauthorized use by third parties only to the extent that these assets are covered by valid and enforceable patents, trademarks, copyrights or other intellectual property rights, or are effectively maintained as trade secrets. As of the date of this filing, we have 125 issued U.S. and foreign patents and 116 pending U.S. and foreign patent applications. We apply for patents covering our products, services, technologies and designs, as we deem appropriate. We may fail to apply for patents on important products, services, technologies or designs in a timely fashion, or at all. We do not know whether any of our patent applications will result in the issuance of any patents. Even if patents are issued, they may not be sufficient to protect our products, services, technologies, or designs. Our existing and future patents may not be sufficiently broad to prevent others from developing competing products, services technologies, or designs. Intellectual property protection and patent rights outside of the United States are even less predictable. As a result, the validity and enforceability of patents cannot be predicted with certainty. Moreover, we cannot be certain whether:

- we were the first to conceive, reduce to practice, invent, or file the inventions covered by each of our issued patents and pending patent applications;
- others will independently develop similar or alternative products, technologies, services or designs or duplicate any of our products, technologies, services or designs;
- any patents issued to us will provide us with any competitive advantages, or will be challenged by third parties;
- we will develop additional proprietary products, services, technologies or designs that are patentable; or
- the patents of others will have an adverse effect on our business.

The patents we own or license and those that may be issued to us in the future may be challenged, invalidated, rendered unenforceable or circumvented, and the rights granted under any issued patents may not provide us with proprietary protection or competitive advantages. Moreover, third parties could replicate our inventions in territories where we do not have patent protection or in territories where they could obtain a compulsory license to our technology where patented. Such third parties may then try to import products made using our inventions into the United States or other territories. We cannot ensure that any of our pending patent applications will result in issued patents, or even if issued, predict the breadth, validity and enforceability of the claims upheld in our and other companies' patents.

Unauthorized parties may attempt to copy or otherwise use aspects of our processes and products that we regard as proprietary. Policing unauthorized use of our proprietary information and technology is difficult and can be costly, and our efforts to do so may not prevent misappropriation of our technologies. We may become engaged in litigation to protect or enforce our patent and other intellectual property rights or in International Trade Commission proceedings to abate the importation of goods that would compete unfairly with our products and, if unsuccessful, these actions could result in the loss of patent or other intellectual property rights protection for the key technologies on which our business strategy depends.

We rely in part on unpatented proprietary technology, and others may independently develop the same or similar technology or otherwise obtain access to our unpatented technology. We require employees, contractors, consultants, financial advisors, suppliers and strategic partners to enter into confidentiality and intellectual property assignment agreements (as appropriate), but these agreements may not provide sufficient protection for our trade secrets, know-how or other proprietary information.

The laws of certain countries do not protect intellectual property and proprietary rights to the same extent as the laws of the United States and, therefore, in certain jurisdictions, we may be unable to protect our products, services, technologies and designs adequately against unauthorized third-party copying, infringement or use, which could adversely affect our competitive position. To protect or enforce our intellectual property rights, we may initiate proceedings or litigation against third parties. Such proceedings or litigation may be necessary to protect our trade secrets or know-how, products, technologies, designs, brands, reputation, likeness, authorship works or other intellectual property rights. Such proceedings or litigation may also be necessary to determine the enforceability, scope and validity of the proprietary rights of others. Any proceedings or lawsuits that we initiate could be expensive, take significant time and divert management's attention from other business concerns. Additionally, we may provoke third parties to assert claims against us, which could invalidate or narrow the scope of our own intellectual property rights. We may not prevail in any proceedings or lawsuits that we initiate and the damages or other remedies awarded, if any, may be commercially valuable. The occurrence of any of these events may adversely affect our business, financial condition and operating results.

We have registered and applied to register certain of our trademarks in several jurisdictions worldwide. In some jurisdictions where we have applied to register our trademarks, other applications or registrations exist for the same, similar or otherwise related products or services. If we are not successful in arguing that there is no likelihood of confusion between our marks and the marks that are the subject of the other applications or registrations owned by third parties, our applications may be denied, preventing us from obtaining trademark registrations and adequate protection for our marks in the relevant jurisdictions, which could impact our ability to build our brand identity and market our products and services in those jurisdictions. Whether or not our application is denied, third parties may claim that our trademarks infringe their rights. As a result, we could be forced to pay significant settlement costs or cease the use of these trademarks and associated elements of our brand in the United States or other jurisdictions.

Even in those jurisdictions where we are able to register our trademarks, competitors may adopt or apply to register similar trademarks to ours, may register domain names that mimic ours or incorporate our trademarks, or may purchase keywords that are identical or confusingly similar to our brand names as terms in Internet search engine advertising programs, which could impede our ability to build our brand identity and lead to confusion among potential customers of our products and services. If we are not successful in proving that we have prior rights in our marks and arguing that there is a likelihood of confusion between our marks and the marks of these third parties, our inability to prevent these third parties from using such may negatively impact the strength, value and effectiveness of our brand names and our ability to market our products and prevent consumer confusion.

If we lose our rights under our third-party technology licenses, our operations could be adversely affected.

Our business depends in part on technology rights and software licensed from third parties. We could lose our exclusivity or other rights to use the technology under our licenses if we fail to comply with the terms and performance requirements of the licenses. In addition, certain licensors may terminate a license upon our breach and have the right to consent to sublicense arrangements. If we were to lose our rights under any of these licenses, or if we were unable to obtain required consents to future sublicenses, we could lose a competitive advantage in the market, and may even lose the ability to commercialize certain products or technologies completely. Either of these results could substantially decrease our revenues.

Our business depends in part on access to third-party platforms or technologies, and if the access is withdrawn, denied, or is not available on terms acceptable to us, or if the platforms or technologies change without notice to us, our business and operating results could be adversely affected.

With the growth of mobile devices and personal voice assistants, cloud services and AI, the number of supporting platforms has grown, and with it the complexity and increased need for us to have business and contractual relationships with the platform owners in order to produce products compatible with these platforms and enable access to and use of these platforms with our products. Our product strategy includes current and future products designed for use with third-party platforms or software, such as iPhone, Android phones, Google Assistant and Amazon Alexa. Our business in these categories relies on our access to the platforms of third parties, some of whom are our competitors. Platform owners that are competitors may limit or decline access to their platforms, and in any case have a competitive advantage in designing products for their own platforms and may produce products that work better, or are perceived to work better, than our products in connection with those platforms. As we expand the number of platforms and software applications with which our products are compatible, we may not be successful in launching products for those platforms or software applications and/or we may not be successful in establishing strong relationships with the new platform or software owners, which could negatively impact our ability to develop and produce high-quality products on a timely basis for those platforms and software applications. We may otherwise fail to navigate various new relationships, which could adversely affect our relationships with existing platform or software owners.

Our access to third-party platforms may also require paying a royalty or licensing fee, which lowers our product margins or may otherwise be on terms that are not acceptable to us. In addition, the third-party platforms or technologies used to interact with our product portfolio can be delayed in production or can change without prior notice to us, which can result in our having excess inventory, lower margins, or customer support issues.

If we are unable to access third-party platforms or technologies, or if our access is withdrawn, denied, or is not available on terms acceptable to us, or if the platforms or technologies are delayed or change without notice to us, our business and operating results could be adversely affected.

Our use of open source software could negatively affect our ability to sell our products and could subject us to possible litigation.

We incorporate open source software into our products. Open source software is generally licensed by its authors or other third parties under open source licenses. Some of these licenses contain requirements that we make available source code for modifications or derivative works we create based upon the open source software, and that we license such modifications or derivative works under the terms of a particular open source license or other license granting third parties certain rights of further use. Additionally, if a third-party software provider has incorporated open source software into software that we license from such provider, we could be required to disclose any of our source code that incorporates or is a modification of our licensed software. If an author or other third-party that distributes open source software that we use or license were to allege that we had not complied with the conditions of the applicable license, we could be required to incur significant legal expenses defending against those allegations and could be subject to significant damages, enjoined from offering or selling our products that contained the open source software and be required to comply with the foregoing conditions. Any of the foregoing could disrupt and harm our business and financial condition.

Our dependence on sales to VARs, resellers, and distributors increases the risks of managing our supply chain and may result in excess inventory or inventory shortages.

Many of our various reseller relationships for our Smart Glasses and AR products and their accessories could involve them taking inventory positions and reselling to multiple customers. Under some distributor relationships, we would not recognize revenue until the distributors sell the product to their end user customers and receive payment thereon; however, at this time we do not currently enter into these types of arrangements. Our distributor and VAR relationships may reduce our ability to forecast sales and increase risks to our business. Since our distributors and VARs would act as intermediaries between us and the end user customers or resellers, we would be required to rely on our distributors to accurately report inventory levels and production forecasts. This may require us to manage a more complex supply chain and monitor the financial condition and credit worthiness of our distributors and VARs and their major end user customers. Our failure to manage one or more of these risks could result in excess inventory or shortages that could adversely impact our operating results and financial condition.

We may lose the services of key management personnel and may not be able to attract and retain other necessary personnel.

Changes in our management could have an adverse effect on our business, and in particular, while our staff is relatively small with just over 100 employees and full-time foreign contractors globally, we are dependent upon the active participation of several key management personnel, including Paul Travers, our President and Chief Executive Officer. Mr. Travers is critical to the strategic direction and overall management of our company as well as our research and development process. The loss of Mr. Travers could adversely affect our business, financial condition and operating results. We do not carry key person life insurance on any of our senior management or other key personnel other than our CEO. Our Executive Vice President and Chief Financial Officer, Grant Russell, a Canadian citizen, currently has his principal residence in Vancouver, Canada and a second residence in West Henrietta, New York. If he becomes unable to legally or efficiently travel to and work in the United States, his ability to perform some of his duties could be materially adversely affected.

We will need to hire and retain highly skilled technical personnel as employees and as independent contractors in order to develop our products and grow our business. The competition for highly skilled technical, managerial and other personnel is at times intense. Our recruiting and retention success is substantially dependent upon our ability to offer competitive salaries and benefits to our employees. We must compete with companies that possess greater financial and other resources than we do and that may be more attractive to potential employees and contractors. To be competitive, we may have to increase the compensation, bonuses, stock options and other fringe benefits we offer to employees in order to attract and retain such personnel. Further, due to COVID-19, many employees have worked remotely and some want to make it a permanent arrangement, which can further complicate their management. The costs of retaining or attracting new personnel may have a material adverse effect on our business and operating results. If we fail to attract and retain the technical and managerial personnel required to be successful, our business, operating results and financial condition could be materially adversely affected.

Risks Related to Manufacturing

The manufacture of waveguides encompasses several complex processes and several steps of our production processes are dependent upon certain critical machines and tools which could result in delivery interruptions, which could adversely affect our operating results.

Our product technology and manufacturing processes are evolving which can result in production challenges and difficulties. We may be unable to produce our products in sufficient quantity and quality to maintain existing customers and attract new customers. In addition, we may experience manufacturing problems which could result in delays in delivery of orders or product introductions. We currently do not have full equipment redundancy in our manufacturing facility. If we experience any significant disruption in the operation of our manufacturing facility or a serious failure of a critical piece of equipment, we may be unable to supply products to our customers in a timely manner. Interruptions in our manufacturing could be caused by equipment problems, the introduction of new equipment into the manufacturing process or delays in the delivery of new manufacturing equipment. Lead-time for delivery, installation, testing, repair and

maintenance of manufacturing equipment can be extensive. We have experienced production interruptions in the past and no assurance can be given that we will not lose potential sales or be able to meet production orders due to future production interruptions in our manufacturing lines.

Our waveguide and display engine products are subject to lengthy OEM development periods.

We intend to sell some of our waveguide and display engines with micro-displays to OEMs with the objective that they then incorporate them into products they sell. To date this business has not been a material contributor to our overall revenues, but it could become so in the future. OEMs determine during their product development phase whether they will incorporate our products. The time elapsed between initial sampling of our products by OEMs, the custom design of our products to meet specific OEM product requirements, and the ultimate incorporation of our products into OEM products is significant, often with a duration of between one to two years or even longer. If our products fail to meet our eventual OEM customers' cost, performance or technical requirements or if unexpected technical challenges arise in the integration of our products into OEM consumer products, our operating results could be significantly and adversely affected. Long delays in achieving customer qualification and incorporation of our products also could adversely affect our business.

We depend on third parties to provide integrated circuit chip sets and other critical components for use in our products.

We do not manufacture the integrated circuit chip sets, microprocessors, wireless chips, optics, micro-displays, backlights, projection engines, printed circuit boards or other electronic components which are used in our products. Instead, we purchase them from third-party suppliers or rely on third-party independent contractors for these integrated circuit chip sets and other critical components, some of which are customized or custom made for us. We also may use third parties to assemble all or portions of our products. Some of these third-party contractors and suppliers are small companies with limited financial resources. In addition, any partial or full government-mandated shutdowns resulting from COVID-19 may cause supply chain disruptions. If any of these third-party contractors or suppliers were unable or unwilling to supply these integrated circuit chip sets or other critical components to us, we would be unable to manufacture and sell our products until a suitable replacement supplier could be found. We may be unable to find, if and when needed, a replacement third-party contractor or supplier on reasonable terms or in a timely manner. Any interruption in our ability to manufacture and distribute our products could cause our business to be unsuccessful.

Risks Related to Our Common Stock

The rights of holders of common stock may be impaired by the possible future issuance of preferred stock.

Our Board of Directors has the right, without approval of the holders of our common stock (subject to the rules of any exchange on which our securities are then listed), to issue additional preferred stock with voting, dividend, conversion, liquidation and other rights which could adversely affect the voting power and equity interest of the holders of common stock, which could be issued with the right to more than one vote per share, and could be utilized as a method of discouraging, delaying or preventing a change-of-control. The possible negative impact on takeover attempts could adversely affect the price of our common stock. Although we have no present intention to issue any shares of preferred stock, we may issue these shares in the future.

We have not paid dividends in the past and do not expect to pay dividends in the future on our common stock.

We have never paid cash dividends on our common stock and do not anticipate paying cash dividends in the foreseeable future. The payment of dividends on our common stock will depend on earnings, financial condition, and other business and economic factors affecting us at such time as our Board of Directors may consider relevant. If we do not pay dividends, our common stock may be less valuable because a return on a stockholders' investment will only occur if our stock price appreciates.

Our stock price may be volatile in the future.

The trading price of our common stock has been subject to wide fluctuations in response to quarter-to-quarter variations in results of operations, announcements of technological innovations or new products introduced by us or our competitors, general conditions in the wireless communications, consumer electronics, semiconductor and display markets, changes in earnings estimates by analysts or other events or factors. In addition, the public stock markets recently have experienced extreme price and trading volatility. This volatility has significantly affected the market prices of securities of many technology companies for reasons frequently unrelated to the operating performance of the specific companies. These broad market fluctuations may adversely affect the market price of our common stock.

There is uncertainty regarding the exclusive forum clause in our amended and restated bylaws.

Our amended and restated bylaws include a clause that provides that the Court of Chancery of the State of Delaware will be the exclusive forum for certain types of actions that may be brought against us. There is uncertainty as to whether we would seek to, or whether we could successfully, apply this exclusive forum provision to any actions that may be brought against us under the Securities Act.

Additional stock offerings in the future may dilute then existing stockholders' percentage ownership of our company.

Given our capital plans, needs and expectations, we may issue additional shares of common stock or securities convertible or exercisable for shares of common stock, including convertible preferred stock, convertible notes, stock options or warrants. The issuance of additional securities in the future will dilute the percentage ownership of then existing stockholders.

General Risk Factors

Our future growth and profitability may be adversely affected if our marketing initiatives are not effective in generating sufficient levels of our product and brand awareness.

Our future growth and profitability from our enterprise, industrial and medical markets focused products will depend in large part upon the effectiveness and efficiency of our marketing efforts, including our ability to:

- create awareness of our brand and products;
- convert customer awareness into actual product purchases;
- effectively manage marketing costs (including creative and media) in order to maintain acceptable operating margins and return on marketing investment; and
- successfully offer to sell our products or license our technology to third-party companies for sale under their own brand name as OEM partners.

Our planned marketing expenditures may not result in increased total sales or generate sufficient levels of product and brand name awareness. We may not be able to manage our marketing expenditures on a cost-effective basis.

If we fail to keep pace with changing technologies or are unable to anticipate customer preferences, our business and results of operations may be materially adversely affected.

Rapidly changing customer requirements, evolving technologies and industry standards characterize the consumer electronics, IT, mobile devices, smart phone, wearables and display industries. To achieve our goals, we need to enhance our existing products and develop and market new products that keep pace with continuing changes in industry standards, requirements and customer preferences.

Our success depends on our ability to originate new products and to identify product trends as well as to anticipate and react to changing customer demands in a timely manner. If we are unable to introduce new products or novel technologies in a timely manner or our new products or technologies are not accepted by customers, our competitors may introduce more attractive products, which could hurt our competitive position. Our new products might not receive customer acceptance if customer preferences shift to other products, and our future success depends in part on our ability to anticipate and respond to these changes. Failure to anticipate and respond in a timely manner to changing customer preferences could lead to, among other things, lower revenue and excess inventory levels.

Our business and products are subject to government regulation and we may incur additional compliance costs or, if we fail to comply with applicable regulations, may incur fines or be forced to suspend or cease operations.

In our current business and as we expand into new markets and product categories, we must comply with a wide variety of laws, regulations, standards and other requirements governing, among other things, electrical safety, wireless emissions, health and safety, e-commerce, consumer protection, export and import requirements, hazardous materials usage, product-related energy consumption, packaging, recycling and environmental matters. Compliance with these laws, regulations, standards and other requirements may be onerous and expensive, and they may be inconsistent from jurisdiction to jurisdiction (including from country to country), further increasing the cost of compliance and doing business. Our products may require regulatory approvals or satisfaction of other regulatory concerns in the various jurisdictions in which they are manufactured, sold or both. These requirements create procurement and design challenges that require us to incur additional costs identifying suppliers and manufacturers who can obtain and produce compliant materials, parts and products. Failure to comply with such requirements can subject us to liability, additional costs and reputational harm and, in extreme cases, force us to recall products or prevent us from selling our products in certain jurisdictions. If there is a new regulation, or change to an existing regulation, that significantly increases our costs of manufacturing or causes us to significantly alter the way that we manufacture our products, this would have a material adverse effect on our business, financial condition and results of operations. Additionally, while we have implemented policies and procedures designed to ensure compliance with applicable laws and regulations, there can be no assurance that our employees, contractors and agents will not violate such laws and regulations or our policies and procedures.

Our products must comply with certain requirements of the U.S. Federal Communications Commission (FCC) regulating electromagnetic radiation in order to be sold in the United States and with comparable requirements of the regulatory authorities of the EU, Japan, China and other jurisdictions in order to be sold in those jurisdictions. Our AR smart glasses products include wireless radios and receivers which require additional emission testing. We are also subject to various environmental laws and governmental regulations related to toxic, volatile, and other hazardous chemicals used in the third-party components incorporated into our products, including the Restriction of Certain Hazardous Substances Directive, or RoHS and the EU Waste Electrical and Electronic Equipment Directive, or the WEEE Directive, as well as the implementing legislation of the EU member states. This directive restricts the distribution of products within the EU that exceed very low maximum concentration amounts of certain substances, including lead. Similar laws and regulations have been passed or are pending in China, Japan, and numerous countries around the world and may be enacted in other regions, including in the United States, and we are, or may in the future be, subject to these laws and regulations.

From time to time, our products are subject to new domestic and international requirements. Compliance with regulations enacted in the future could substantially increase our cost of doing business or otherwise have a material adverse effect on our results of operations and our business. Any inability by us to comply with regulations in the future could result in the imposition of fines or in the suspension or cessation of our operations or sales in the applicable jurisdictions. Any such inability by us to comply with regulations may also result in our not being permitted, or limit our ability, to ship our products which would adversely affect our revenue and ability to achieve or maintain profitability.

Although we have policies and procedures in place requiring our contract manufacturers and major component suppliers to comply with the supply chain transparency requirements, such as RoHS Directive, we cannot provide assurance that our manufacturers and suppliers consistently comply with these requirements. In addition, if there are changes to these or other laws (or their interpretation) or if new related laws are passed in other jurisdictions, we may be required to re-engineer our products to use components compatible with these regulations. This re-engineering and component substitution could result in additional costs to us or disrupt our operations or logistics.

The WEEE Directive requires electronic goods producers to be responsible for the collection, recycling and treatment of such products. Changes in interpretation of the directive may cause us to incur costs or have additional regulatory requirements to meet in the future in order to comply with this directive, or with any similar laws adopted in other jurisdictions. Our failure to comply with past, present and future similar laws could result in reduced sales of our products, substantial product inventory write-offs, reputational damage, penalties and other sanctions, which could harm our business and financial condition. We also expect that our products will be affected by new environmental laws and regulations on an ongoing basis. To date, our expenditures for environmental compliance have not had a material impact on our results of operations or cash flows and, although we cannot predict the future impact of such laws or regulations, they will likely result in additional costs and may increase penalties associated with violations or require us to change the content of our products or how they are manufactured, which could have a material adverse effect on our business and financial condition.

Regulations related to conflict minerals may cause us to incur additional expenses and could limit the supply and increase the costs of certain materials used in the manufacturing of our products.

As a public company, we are subject to requirements under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, that require us to determine, disclose and report whether or not our products contain conflict minerals. These requirements could adversely affect the sourcing, availability and pricing of the materials used in the manufacture of components used in our products. In addition, we have and will continue to incur additional costs to comply with the disclosure requirements, including costs related to conducting diligence procedures to determine the sources of conflict minerals that may be used in, or necessary for the production of our products and, if applicable, potential changes to products, processes or sources of supply as a consequence of such verification activities. We also may face reputational harm if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to alter our products, processes or sources of supply to avoid such materials.

If our customers are not satisfied with our technical support, firmware or software updates on some of our products, they may choose not to purchase our products, which would adversely impact our business and operating results.

Our business relies, in part, on our customers' satisfaction with the technical support, firmware, software and security updates we provide to support our products. If we fail to provide technical support services and necessary updates that are responsive, satisfy our customers' expectations and resolve issues that they encounter with our products, customers may choose not to purchase additional products and we may face brand and reputational harm, which could adversely affect our operating results.

Our operating results may be adversely impacted by worldwide political, economic, public health uncertainties, wars and specific conditions in the markets we address.

Any worsening of global economic, financial, or public health conditions, including global pandemics, such as COVID-19, could materially adversely affect (i) our ability to raise, or the terms of needed capital; (ii) demand for our current and future products; and (iii) the supply of components for our products. We cannot predict the timing, strength, or duration of any economic slowdown or subsequent economic recovery, worldwide, or in the display industry.

Our results of operations may suffer if we are not able to successfully manage our increasing exposure to foreign exchange rate risks.

A substantial majority of our sales and cost of components are denominated in U.S. dollars. As our business grows, both our sales and production costs may increasingly be denominated in other currencies. Where such sales or production costs are denominated in other currencies, they are converted to U.S. dollars for the purpose of calculating any sales or costs to us. Our sales may decrease as a result of any appreciation of the U.S. dollar against these other currencies.

The majority of our current expenditures are incurred in U.S. dollars and many of our components come from countries that currently peg their currency against the U.S. dollar. If the pegged exchange rates change adversely or are allowed to float up, additional U.S. dollars will be required to fund our purchases of these components.

Although we do not currently enter into currency option contracts or engage in other hedging activities, we may do so in the future. There is no assurance that we will undertake any such hedging activities or that, if we do so, they will be successful in reducing the risks to us of our exposure to foreign currency fluctuations.

Due to our significant level of international operations, including the use of foreign suppliers and contract manufactures, we are subject to international operational, financial, legal, political and public health risks which could harm our operating results.

We purchase product components from our suppliers and engage third-party contract manufacturing firms to perform electronic circuit board and cable assemblies. We moved the assembly of our finished products to our plant in West Henrietta, New York in late summer 2019. Additionally, we use our West Henrietta, New York facility for the production of waveguides and their related display engines and intend to do so for some time. In the future, our mature products could have their final assembly performed outside the United States. Accordingly, a substantial part of our operations, including manufacturing of certain components used in our products, are outside of the United States and many of our customers and suppliers have some or all of their operations in countries other than the United States. Risks associated with our doing business outside of the United States include:

- compliance burdens and costs with a wide variety of foreign laws and regulations, particularly labor, environmental and other laws and regulations that govern our operations in those countries;
- legal uncertainties regarding foreign taxes, tariffs, border taxes, quotas, export controls, export licenses, import controls and other trade barriers;
- economic instability and high levels of inflation in the countries of our suppliers and customers, particularly in the Asia-Pacific region, causing delays or reductions in orders for their products and therefore our sales;
- political or public health instability, including global pandemics, such as COVID-19, in the countries in which our suppliers operate;
- changes or volatility in currency exchange rates; and
- difficulties in collecting accounts receivable and longer accounts receivable payment cycles.

Any of these factors could harm our own, our suppliers' and our customers' international operations and businesses and impair our and/or their ability to continue expanding into international markets.

We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act or similar anti-bribery laws in other jurisdictions in which we operate.

The global nature of our business and the significance of our international revenue create various domestic and local regulatory challenges and subject us to risks associated with our international operations. We operate in areas of the world that experience corruption by government officials to some degree and, in certain circumstances, compliance with anti-bribery and anticorruption laws may conflict with local customs and practices. Our global operations require us to import and export to and from several countries, which geographically expands our compliance obligations. In addition, changes in such laws could result in increased regulatory requirements and compliance costs which could adversely affect our business, financial condition and results of operations.

The U.S. Foreign Corrupt Practices Act (FCPA), the U.K. Bribery Act 2010 (U.K. Bribery Act), and similar anti-bribery and anticorruption laws in other jurisdictions generally prohibit U.S.-based companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business, directing business to another, or securing an advantage. In addition, U.S. public companies are required to maintain records that accurately and fairly represent their transactions and have an adequate system of internal accounting controls. Under the FCPA, U.S.

companies may be held liable for the corrupt actions taken by directors, officers, employees, agents, or other strategic or local partners or representatives. As such, if we or our intermediaries fail to comply with the requirements of the FCPA or similar legislation, governmental authorities in the United States and elsewhere could seek to impose substantial civil and/or criminal fines and penalties which could have a material adverse effect on our business, reputation, operating results and financial condition.

We are subject to governmental export and import controls and economic sanctions laws that could subject us to liability and impair our ability to compete in international markets.

The U.S. and various foreign governments have imposed controls, export license requirements and restrictions on the import or export of some technologies. Our products are subject to U.S. export controls, including the Commerce Department's Export Administration Regulations and various economic and trade sanctions regulations established by the Treasury Department's Office of Foreign Assets Controls, and exports of our products must be made in compliance with these laws. Furthermore, U.S. export control laws and economic sanctions prohibit the provision of products and services to countries, governments, and persons targeted by U.S. sanctions. Even though we take precautions to prevent our products from being provided to targets of U.S. sanctions, our products, including our firmware updates, could be provided to those targets or provided by our customers despite such precautions. Any such provision could have negative consequences, including government investigations, penalties and reputational harm. Our failure to obtain required import or export approval for our products could harm our international and domestic sales and adversely affect our revenue.

If significant tariffs or other restrictions are placed and maintained on Chinese imports or any related counter-measures are taken by China, our revenue and results of operations may be materially harmed.

If significant tariffs or other restrictions are placed on Chinese imports or any related counter-measures are taken by China, our revenue and results of operations may be materially harmed. In July 2018, the Trump Administration introduced a list of thousands of categories of goods that began facing tariffs of up to 25%, inclusive of many components and services we have sourced or performed for us in China by suppliers there. These tariffs currently affect most of our products and we may be required to raise our prices on those products due to the tariffs, which may result in a loss of customers and harm our operating performance. If the existing tariffs are expanded or interpreted by a court or governmental agency to apply to any of our other products, we may be required to raise our prices on those products also, which may further result in a loss of customers and harm our operating performance. It is possible further tariffs will be imposed on imports of our products, or that our business will be impacted by retaliatory trade measures taken by China or other countries in response to existing or future tariffs, causing us to raise prices or make changes to our operations, any of which could materially harm our revenue or operating results.

Changes in trade policy in the United States and other countries, including changes in trade agreements and the imposition of tariffs and the resulting consequences, may have adverse impacts on our business, results of operations and financial condition.

The U.S. government has indicated and demonstrated its intent to alter its approach to international trade policy through the renegotiation, and potential termination, of certain existing bilateral or multilateral trade agreements and treaties with, and the imposition of tariffs on a wide range of products and other goods from China, countries in EMEA and other countries. Given our manufacturing in those countries, and our lack of manufacturing elsewhere, policy changes in the United States or other countries, such as the tariffs already proposed, implemented and threatened, present particular risks for us. Tariffs already implemented are having an adverse effect on certain of our products and threatened additional tariffs could adversely affect more or all of our products. There are also risks associated with retaliatory tariffs and resulting trade wars. We cannot predict future trade policy, the terms of any renegotiated trade agreements or treaties, or tariffs and their impact on our business. A trade war could have a significant adverse effect on world trade and the world economy. To the extent that trade tariffs and other restrictions imposed by the United States or other countries increase the price of, or limit the amount of, our products or components or materials used in our products imported into the United States or other countries, or create adverse tax consequences, the sales, cost or gross margin of our products may be adversely affected and the demand from our customers for products and services may be diminished. Uncertainty surrounding international trade policy and disputes and protectionist measures could also have an adverse effect on consumer confidence and spending. If we deem it necessary to alter all or a portion of our activities or operations in response to such

policies, agreements or tariffs, our capital and operating costs may increase. Our ongoing efforts to address these risks may not be effective and may have long-term adverse effects on our operations and operating results that we may not be able to reverse. Such efforts may also take time to implement or to have an effect, and may result in adverse quarterly financial results or fluctuations in our quarterly financial results. As a result, changes in international trade policy, changes in trade agreements and tariffs could adversely affect our business, results of operations and financial condition.

Any significant disruption to our ecommerce business could result in lost sales.

Our sales through our ecommerce channel have been growing. Sales through vuzix.com and our related EU, UK and Japanese web stores generally have higher profit margins than sales through resellers, VARs and distributors. Online sales are subject to a number of risks. System interruptions or delays could cause potential customers to fail to purchase our products and could harm our brand. The operation of our direct-to-consumer ecommerce business through vuzix.com depends on our ability to maintain the efficient and uninterrupted operation of online order-taking and fulfillment operations. Our ecommerce operations subject us to certain risks that could have an adverse effect on our operating results, including risks related to the computer systems that operate our website and related support systems, such as system failures, viruses, identity information thefts, denial-of-services attacks, computer hackers and similar disruptions. If we are unable to continually add software and hardware, effectively upgrade our systems and network infrastructure and take other steps to improve the efficiency of our systems, system interruptions or delays could occur that would adversely affect our operating results.

We utilize third-party vendors for our customer-facing ecommerce technology, portions of our order management system and fulfillment internationally. We depend on our technology vendors to manage “up-time” of the front-end ecommerce store, manage the intake of our orders, and export orders for fulfillment. Any failure on the part of our third-party ecommerce vendors or in our ability to transition third-party services effectively could result in lost sales and harm our business.

We collect, store, process and use portions of our customers’ personally identifiable information and other data, which subjects us to governmental regulation and other legal obligations related to privacy, information security and data protection. Any cybersecurity breaches or our actual or perceived failure to comply with such legal obligations by us, or by our third-party service providers or partners, could harm our business.

We collect, store, process and use our customers’ personally identifiable information and other data in our transactions with them, and we rely on third parties that are not directly under our control to do so as well. While we take reasonable measures intended to protect the security, integrity and confidentiality of the personal information and other sensitive information we collect, store or transmit, we cannot guarantee that inadvertent or unauthorized use or disclosure will not occur, or that third parties will not gain unauthorized access to this information. While our privacy policies currently prohibit such activities, our third-party service providers or partners may engage in such activity without our knowledge or consent. If we or our third-party service providers were to experience a breach, disruption or failure of systems compromising our customers’ data, or if one of our third-party service providers or partners were to access our customers’ personal data without our authorization, our brand and reputation could be adversely affected, use of our products could decrease and we could be exposed to a risk of loss, litigation and regulatory proceedings.

Regulatory scrutiny of privacy, data collection, use of data and data protection is intensifying globally, and the personal information and other data we collect, store, process and use is increasingly subject to legislation and regulations in numerous jurisdictions around the world, especially in Europe. These laws often develop in ways we cannot predict and may materially increase our cost of doing business, particularly as we expand the nature and types of products we offer. For example, the General Data Protection Regulation (the “GDPR”), which came into effect in the EU and the State of California enacted the California Consumer Privacy Act of 2018 (the “CCPA”), which went into effect on January 1, 2020, imposes more stringent data protection requirements and provides for greater penalties for noncompliance. These regulations require companies that process information to make new disclosures to consumers about their data collection, use and sharing practices, and allows consumers to opt out of certain data sharing with third parties while providing a new cause of action for data breaches. Further, data protection legislation is also becoming increasingly common in the United States at both the federal and state level. The burdens imposed by these and other similar laws that may be enacted at the

federal and state level may require us to modify our data processing practices and policies and/or to incur substantial expenditures in order to comply.

Cybersecurity risks could adversely affect our business and disrupt our operations.

The threats to network and data security are increasingly diverse and sophisticated. Despite our efforts and processes to prevent breaches, our devices, as well as our servers, computer systems, and those of third parties that we use in our operations are vulnerable to cybersecurity risks, including cyber-attacks such as viruses and worms, phishing attacks, denial-of-service attacks, physical or electronic break-ins, employee theft or misuse, and similar disruptions from unauthorized tampering with our servers and computer systems or those of third parties that we use in our operations, which could lead to interruptions, delays, loss of critical data, unauthorized access to user data, and loss of consumer confidence. In addition, we may be the target of email scams that attempt to acquire personal information or company assets. Despite our efforts to create security barriers to such threats, we may not be able to entirely mitigate these risks. Any cyber-attack that attempts to obtain our or our users' data and assets, disrupt our service, or otherwise access our systems, or those of third parties we use, if successful, could adversely affect our business, operating results, and financial condition, be expensive to remedy, and damage our reputation. In addition, any such breaches may result in negative publicity, adversely affect our brand, decrease demand for our products and services, and adversely affect our operating results and financial condition.

Our failure to effectively manage growth could harm our business.

We intend to expand the number and types of products we sell. We will need to replace and regularly introduce on a timely basis new products and technologies, enhance existing products, and effectively stimulate customer demand for new products and upgraded or enhanced versions of our existing products.

The replacement and expansion of our products places a significant strain on our management, operations and engineering resources. Specifically, the areas that are strained most by these activities include the following:

- **New Product Launches:** With the changes in and growth of our product portfolio, we will experience increased complexity in coordinating product development, manufacturing, and shipping. As this complexity increases, it places a strain on our ability to accurately coordinate the commercial launch of our products with adequate supply to meet anticipated customer demand and effectively market to stimulate demand and market acceptance. We have experienced delays in the past. If we are unable to scale and improve our product launch coordination, we could frustrate our customers and lose possible retail shelf space and product sales;
- **Existing Products Impacted by New Introductions:** The introduction of new products or product enhancements may shorten the life cycle of our existing products, or replace sales of some of our current products, thereby offsetting the benefit of even a successful product introduction and may cause customers to defer purchasing our existing products in anticipation of the new products and potentially lead to challenges in managing inventory of existing products. We may also provide price protection to some of our retailers as a result of our new product introductions and reduce the prices of existing products. If we fail to effectively manage new product introductions, our revenue and profitability may be harmed; and
- **Forecasting, Planning and Supply Chain Logistics:** With the changes in and growth of our product portfolio, we will experience increased complexity in forecasting customer demand, in planning for production, and in transportation and logistics management. If we are unable to scale and improve our forecasting, planning, production, and logistics management, we could frustrate our customers, lose product sales or accumulate excess inventory.

Our facilities and information systems and those of our key suppliers could be damaged as a result of disasters or unpredictable events, which could have an adverse effect on our business operations.

We operate the majority of our business from one location in West Henrietta, New York (a suburb of Rochester). We also rely on third-party manufacturing plants in the US and Asia and third-party logistics, sales and marketing facilities in Japan and Europe, and in other parts of the world to provide key components for our products and services. If major disasters such as earthquakes, pandemics, fires, floods, wars, terrorist attacks, computer viruses, transportation disasters or other events occur in any of these locations, or our information systems or communications network or those of any of our key component suppliers breaks down or operates improperly as a result of such events, our facilities or those of our key suppliers may be seriously damaged, and we may have to stop or delay production and shipment of our products. We may also incur expenses relating to such damages. If production or shipment of our products or components is stopped or delayed or if we incur any increased expenses as a result of damage to our facilities, our business, operating results and financial condition could be materially adversely affected.

We do not control our component suppliers, service providers and contract manufacturers or currently require them to comply with a formal code of conduct, and actions that they might take could harm our reputation and sales.

We do not control our component suppliers, service providers and contract manufacturers, including their labor, environmental or other practices, or require them to comply with a formal code of conduct. Though we conduct periodic visits to some of our contract manufacturers and suppliers, these visits are not frequent or thorough enough to detect non-compliance with applicable laws and good industry practices. A violation of labor, environmental or other laws by our contract manufacturers or suppliers, or a failure of these parties to follow ethical business practices, could lead to negative publicity and harm our reputation. In addition, we may choose to seek alternative manufacturers or suppliers if these violations or failures were to occur. Identifying and qualifying new manufacturers or suppliers can be time consuming and we might not be able to substitute suitable alternatives in a timely manner or at an acceptable cost. Other consumer products companies have faced significant criticism for the actions of their manufacturers and suppliers, and we could face such criticism ourselves. Any of these events could adversely affect our brand, harm our reputation, reduce demand for our products and harm our ability to meet demand if we need to identify alternative manufacturers or suppliers.

We rely on third-party suppliers, some of which are sole-source suppliers, to provide components for our products which may lead to supply shortages, long lead times for components, and supply changes, any of which could disrupt our supply chain, may increase our costs, and we may be unable to meet the demands of our customers and end-users on a timely basis.

Our ability to meet customer demand depends, in part, on our ability to obtain timely and adequate delivery of components for our products. All of the components that go into the manufacturing of our smart glasses products and accessories, other than waveguide optics, are sourced from third-party suppliers. The availability of certain of the components that we require to produce our AR Smart Glasses and other near-eye display products may decrease.

Some of the key components used to manufacture our products come from a limited or single source of supply, or by a supplier that could potentially become a competitor. Our contract manufacturers generally purchase these components on our behalf from approved suppliers. We are subject to the risk of shortages and long lead times in the supply of these components and the risk that our suppliers discontinue or modify components used in our products. The potential of partial or full government mandated shutdowns resulting from COVID-19 or other pandemics may increase these risks. In addition, the lead times associated with certain components are lengthy and preclude rapid changes in quantities and delivery schedules. Further the electronic components we utilize can go end-of-life due to technological changes, which can require us to invest in implementing costs and the potential for the forced obsolescence of other related items. We have in the past experienced end-of-life issues and expect to see more shortages in the future. As such the availability of these components may be unpredictable.

As the availability of components decreases, the cost of acquiring those components ordinarily increases. High growth product categories such as the consumer electronics and mobile phone markets have experienced chronic shortages of components during periods of exceptionally high demand. If we do not properly anticipate the need for or procure critical components, we may pay higher prices for those components, our gross margins may decrease and we may be

unable to meet the demands of our customers and end-users, which could reduce our competitiveness, cause a decline in our market share and have a material adverse effect on our results of operations.

If we lose access to components from a particular supplier or experience a significant disruption in the supply of products and components from a current supplier, we may be unable to locate alternative suppliers of comparable quality at an acceptable price, or at all, and our business could be materially and adversely affected. In addition, if we experience a significant increase in demand for our products, our suppliers might not have the capacity or elect not to meet our needs as they allocate components to other customers. Developing suitable alternate sources of supply for these components may be time-consuming, difficult and costly, and we may not be able to source these components on terms that are acceptable to us, or at all, which may adversely affect our ability to meet our development requirements or to fill our orders in a timely or cost-effective manner. Identifying a suitable supplier is an involved process that requires us to become satisfied with the supplier's quality control, responsiveness and service, financial stability, labor and other ethical practices, and if we seek to source materials from new suppliers, there can be no assurance that we could do so in a manner that does not disrupt the manufacture and sale of our products.

Our reliance on single source, or a small number of suppliers involves a number of additional risks, including risks related to supplier capacity constraints, price increases, timely delivery, component quality, failure of a key supplier to remain in business and adjust to market conditions, delays in, or the inability to execute on, a supplier roadmap for components and technologies; and natural disasters, fire, wars, acts of terrorism or other catastrophic events, including global pandemics.

We do not currently own or operate any manufacturing facilities for any types of micro-displays, one of the key components in our products. Certain other components and services necessary for the manufacture of our products are available from only a limited number of sources, and other components and services are only available from a single source. We currently purchase almost all of the micro-displays used in our Smart Glasses products from Sony Corporation and Texas Instruments. Our relationship with these companies generally is on a purchase order basis and these firms do not have a contractual obligation to provide adequate supply or acceptable pricing to us on a long-term basis. These firms could discontinue sourcing components for us at any time. If any of these firms were to discontinue its relationship with us, or discontinue providing specific products to us, and we are unable to contract with a new supplier that can meet our requirements, or if they or such other supplier were to suffer a disruption in their production, we could experience disruption of our inventory flow, a decrease in sales and the possible need to re-design our products. Any such event could disrupt our operations and have an adverse effect on our business, financial condition and results of operations. Several new LCOS, alternative OLED, as well as micro-LED suppliers have begun offering micro-displays suitable for use in our products. With new tooling and electronics, any one of these alternative displays could be incorporated into our products but our costs of production could be higher, they may offer less performance, and, as a result, may make our products too costly and less desirable.

If our estimates or judgments relating to our critical accounting policies prove to be incorrect, our operating results could be adversely affected.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report on Form 10-K. The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities, and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, inventories, product warranty reserves, accounting for income taxes, and stock-based compensation expense. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors, resulting in a decline in the price of our common stock.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

We lease approximately 39,000 square feet as our main facility at 25 Hendrix Road, West Henrietta, New York, 14586 (a suburb of Rochester). This facility houses our office, R&D and manufacturing space under an operating lease for the facility that we began occupying in October 2015. The base rent contractual payment obligations under this operating lease is currently \$547,000 per year. The lease has an original five-year term with an option by the Company to renew for two additional three-year terms at pre-agreed to lease rates. As of June 25, 2020, the Company exercised the first of the two renewal terms, extending our current lease expiration date to January 31, 2024. We believe that our West Henrietta facility is in good operating condition and currently adequately serves our needs.

In Oxford, England, we rent 400 square feet of office space at a cost of approximately \$9,700 per year. The lease for this location expired on September 30, 2021 and is currently on a month-to-month basis.

In Tokyo, Japan, we rent 577 square feet of office space at a cost of approximately \$85,000 per year. We lease this location pursuant to a renewable one-year lease which was scheduled to expire on February 28, 2022. We are currently negotiating a new lease for this location.

Item 3. *Legal Proceedings*

We are not currently involved in any actual or pending material legal proceedings or litigation, and we are not aware of any such proceedings contemplated by or against us or our property.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

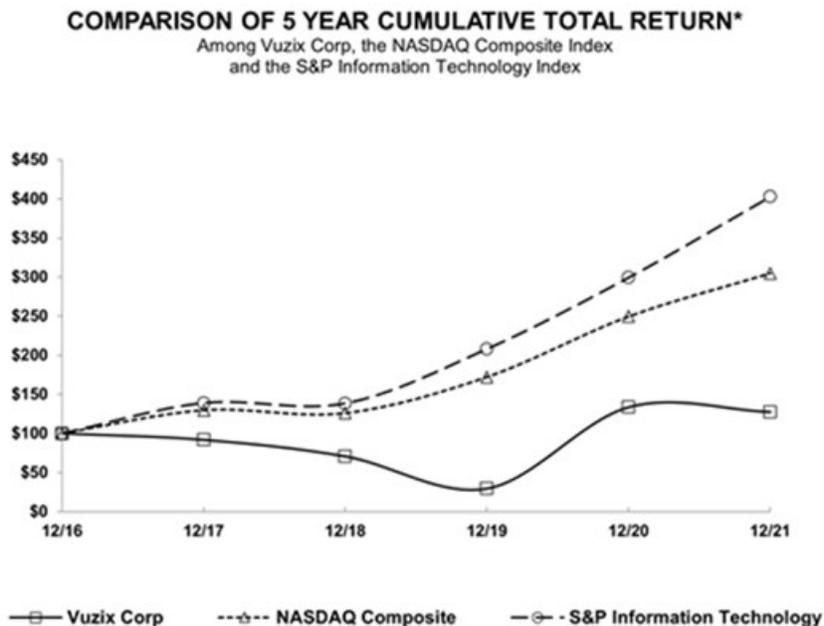
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market for our Common Stock

Our common stock is listed on the NASDAQ Capital Market under the symbol “VUZI”.

Company Stock Performance

The following graph shows a five-year comparison of cumulative total shareholder return for the Company, the NASDAQ US Benchmark TR Index and the S&P 500 Information Technology index. The graph assumes \$100 was invested in each of the Company’s common stock, the NASDAQ Composite Index and the S&P 500 Information Technology index on December 31, 2016. Data points on the graph are annual. Note that historical price performance is not necessarily indicative of future performance.



*\$100 invested on 12/31/16 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

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Holders of Record

As of March 2, 2022, there were 65 holders of record of our common stock.

Dividends

We have not historically and currently do not pay dividends on our outstanding common stock. The declaration of any future dividends and, if declared, the amount of any such dividends, will be subject to our actual future earnings, capital requirements, regulatory restrictions, any applicable contractual restrictions and at the discretion of our Board of Directors. Our Board of Directors may take into account such matters as general business conditions, our financial condition and results of operations, our capital requirements, our prospects and such other factors as our Board of Directors may deem relevant.

Shares of Series A Preferred stock were entitled to receive dividends at a rate of 6% per year, compounded quarterly and payable in cash or in kind, at our discretion. On January 28, 2021, the holder converted all of its shares of Series A Preferred Stock into 4,962,600 shares of common stock. The shares of Series A Preferred were retired and cannot be reissued. On the same date, the Company and the holder entered into a Dividend Settlement Agreement pursuant to which the holder agreed to accept \$10,000,000 in cash in full payment of all accrued Series A Preferred Stock dividends in the approximate amount of \$10,800,000.

Issuer Purchases of Equity Securities

We did not purchase equity securities that are registered under Section 12 of the Exchange Act during the year ended December 31, 2021.

Unregistered Sales of Equity Securities and use of Proceeds

Sales of Unregistered Securities:

- On June 8, 2021, the Company issued 75,000 shares of common stock related to an amendment of a technology purchase and royalty agreement. In connection with the foregoing, the Company relied upon the exemption from registration provided by Section 4(a)(2) under the Securities Act of 1933, as amended, for transactions not involving a public offering.
- On July 28, 2021, the Company issued 300,000 shares of restricted common stock to the new managing director of its newly established VCS business unit. These restricted shares are subject to vesting, including 50,000 shares that may be earned over 3 years based upon continued employment with the Company, and 250,000 shares that are being held in escrow, and which may be earned upon achievement of revenue and EBITDA operational milestones for VCR within specified periods of time over 5 years. In connection with the foregoing, we relied upon the exemption from registration provided by Section 4(a)(2) under the Securities Act of 1933, as amended, for transactions not involving a public offering.

Purchase of Equity Securities – none

Equity Compensation Plan Information

The following table provides information about our equity compensation plan as of December 31, 2021.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance (1)
Equity compensation plans approved by security holders	8,607,634	\$ 15.28	1,550,004
Equity compensation plans not approved by security holders	—	—	—
Total	8,607,634	\$ 15.28	1,550,004

(1) The amount appearing under “Number of securities remaining available for future issuance” includes shares available under our 2014 Equity Incentive Plan. The 2014 Plan (as amended) has an “evergreen provision”, under which the maximum number of shares of common stock that may be issued under the 2014 Plan automatically increases each time the Company issues additional shares of common stock so that the total number of shares issuable thereunder at all times equals 20% of the then outstanding shares of common stock, unless in any case the Board of Directors adopts a resolution providing that the number of shares issuable under the 2014 Plan not be so increased. Refer to Note 14 for further details.

Item 6. [Reserved]

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of financial condition and results of operations should be read in conjunction with our financial statements and related notes appearing elsewhere in this annual report. In addition to historical information, the following discussion and analysis includes forward looking statements that involve risks, uncertainties and assumptions. Our actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors, including those discussed in “Risk Factors” and elsewhere in this annual report. See the discussion under “Forward Looking Statements” beginning on page 1 of this annual report.

Overview

We are engaged in the design, manufacture, marketing and sale of augmented reality wearable display devices also referred to as head mounted displays (or HMDs, but also known as Video Eyewear or near-eye displays), in the form of Smart Glasses and Augmented Reality (AR) glasses. Our AR wearable display devices are worn like eyeglasses or attach to a head worn mount. These devices typically include cameras, sensors, and a computer that enable the user to view, record and interact with video and digital content, such as computer data, the Internet, social media or entertainment applications. Our wearable display products integrate micro-display technology with our advanced optics to produce compact high-resolution display engines, less than half an inch diagonally, which when viewed through our smart glasses products create virtual images that appear comparable in size to that of a computer monitor or a large-screen television.

With respect to our Smart Glasses and AR products, we are focused on the enterprise, industrial, medical and commercial markets. All of the mobile display and mobile electronics markets in which we compete have been subject to rapid technological change over the last decade including the rapid adoption of tablets, larger screen sizes and display resolutions along with declining prices on mobile phones and other computing devices, and as a result we must continue to improve our products’ performance and lower our costs. We believe our intellectual property portfolio gives us a leadership position in micro-display projection engines, waveguides, ergonomics, packaging, and optical systems.

Critical Accounting Policies and Significant Developments and Estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements and related notes appearing elsewhere in this annual report. The preparation of these statements in conformity with generally accepted accounting principles requires the appropriate application of certain accounting policies, many of which require us to make estimates and assumptions about future events and their impact on amounts reported in our consolidated financial statements, including the statement of operations, balance sheet, cash flow and related notes. We continually evaluate our estimates used in the preparation of our consolidated financial statements, including those related to revenue recognition, bad debts, inventories, warranty reserves, product warranty, carrying value of long-lived assets, derivatives, valuation of stock compensation awards, and income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not apparent from other sources. Since we cannot determine future events and their impact with certainty, the actual results may differ from our estimates. Such differences could be material to the consolidated financial statements.

We believe that our application of accounting policies, and the estimates inherently required therein, are reasonable. We periodically reevaluate these accounting policies and estimates and make adjustments when facts and circumstances dictate a change. Historically, we have found our application of accounting policies to be appropriate, and actual results have not differed materially from those determined using necessary estimates.

Our accounting policies are more fully described in the notes to our consolidated financial statements included in this annual report on Form 10-K. The critical accounting policies, judgments and estimates that we believe have the most significant effect on our financial statements are:

- Valuation of inventories;
- Carrying value of long-lived assets;
- Software development costs;
- Revenue recognition;
- Product warranty;
- Stock-based compensation; and
- Income taxes.

Valuation of Inventories

Inventory is stated at the lower of cost or net realizable value, with cost determined on a weighted average first-in, first-out method. Inventory includes purchased parts and components, work in process and finished goods. Provisions for excess, obsolete or slow-moving inventory are recorded after periodic evaluation of historical sales, current economic trends, forecasted sales, estimated product life cycles and estimated inventory levels. Purchasing practices, electronic component obsolescence, accuracy of sales and production forecasts, introduction of new products, product life cycles, product support and foreign regulations governing hazardous materials are factors that contribute to inventory valuation risks. Exposure to inventory valuation risks is managed by maintaining safety stocks, minimum purchase lots, managing product and end-of-life issues brought on by aging components or new product introductions, and by utilizing certain inventory minimization strategies such as vendor-managed inventories. The accounting estimate related to valuation of inventories is considered a “critical accounting estimate” because it is susceptible to changes from period-to-period due to the requirement for management to make estimates relative to each of the underlying factors, ranging from purchasing to sales, production, and after-sale support. If actual demand, market conditions or product life cycles differ from estimates,

inventory adjustments to net realizable values would result in a reduction to the carrying value of inventory, an increase in inventory write-offs and a decrease to gross margins.

During the year ended December 31, 2021, the Company reserved for (i) an additional twenty-five percent of its remaining M300XL finished goods and related accessory inventory on-hand as of December 31, 2021 and (ii) all of its Blade 1.5 excess components that will not be used in current planned builds of the Blade in 2022, due to end-of-life availability of some required components. The total reserve write-down recorded at December 31, 2021 was \$519,950. The write-down and obsolescence provision for finished goods and components totaled \$1,273,835 and \$4,572,659 for the years ended December 31, 2020 and 2019, respectively. These provisions are included in Cost of Sales on the Consolidated Statements of Operations.

Carrying Value of Long-Lived Assets

If facts and circumstances indicate that a long-lived asset, including a products' mold tooling and equipment, may be impaired, the carrying value is reviewed in accordance with FASB ASC Topic 360-10 *Accounting for the Impairment or Disposal of Long-Lived Assets*. If this review indicates that the carrying value of the asset will not be recovered as determined based on projected undiscounted cash flows related to the asset over its remaining life, the carrying value of the asset is reduced to its estimated fair value. Impairment losses are dependent on a number of factors such as general economic trends and major technology advances, and thus could be significantly different from historical results. For the year ended December 31, 2021, we recorded a loss on fixed asset disposal of \$183,614 upon the retirement of certain tooling and manufacturing equipment assets no longer in use. No loss on fixed asset disposal charges on tooling and equipment were recorded in 2020 or 2019.

We perform a valuation of our patents and trademark assets when events or circumstances indicate their carrying amounts may be unrecoverable. For the years ended December 31, 2021 and 2020, there was an impairment charge of \$80,163 and \$73,532, respectively, and nil in 2019. The value of the remaining intellectual property, such as patents and trademarks, were valued (net of accumulated amortization) at \$1,988,370 as of December 31, 2021, because management believes that this value is recoverable.

Software Development Costs

The Company capitalizes the costs of obtaining and developing its software once technological feasibility has been determined by management or of purchased software solutions when placed into service. Such costs are accumulated and capitalized. These projects could take several years to complete. The capitalized costs are then amortized over 3 years on a straight-line basis. Unsuccessful or discontinued software projects are written off and expensed in the fiscal period where the application is abandoned or discontinued. The unamortized software development costs remaining were valued (net of accumulated amortization) at \$541,666 as of December 31, 2021, because management believes that this value is recoverable.

Revenue Recognition

The Company adopted the new guidance on Revenue from Contracts with Customers under FASB ASC Topic 606, "Revenue from Contracts with Customers", as of January 1, 2018. Product sales represent the majority of the Company's revenue. The Company recognizes revenue from these product sales as performance obligations are satisfied and transfer of control to the customer has occurred, typically upon physical shipment. Revenue is recognized in the amount that the Company expects to receive in exchange from the sale of our products. FOB shipping point is our standard shipping terms and revenue is recognized as our products ship to customers, as control is transferred at that point in time. All of our standard product sales include a 30-day money back guarantee and expected returns are estimated at each reporting period date and a portion of revenue is deferred for all estimated returns. As of December 31, 2021 and 2020, deferred revenue associated with our expected returns was immaterial. The Company collects and remits sales taxes in certain jurisdictions and reports revenue net of any associated sales taxes.

Revenue from engineering consulting and other services is recognized at the time the services are rendered. The Company accounts for its longer-term development contracts, which to date have all been firm fixed-priced contracts, on

the percentage-of-completion method, whereby income is recognized as work on contracts progresses, but estimated losses on contracts in progress are charged to operations immediately. The percentage-of-completion is determined using the cost-to-cost method. To date, all such contracts have been less than one calendar year in duration.

Product Warranty

Warranty obligations are generally incurred in connection with the sale of our products. The warranty period for these products is generally one year except in certain European countries where it can be two years for some consumer-focused products. Warranty costs are accrued, to the extent that they are not recoverable from third-party manufacturers, for the estimated cost to repair or replace products for the balance of the warranty periods. We provide for the costs of expected future warranty claims at the time of product shipment or over-builds to cover replacements. The adequacy of the provision is assessed at each quarter end and is based on historical experience of warranty claims and costs. The costs incurred to provide for these warranty obligations are estimated and recorded as an accrued liability at the time of sale. Future warranty costs are estimated based on historical performance rates and related costs to repair given products. The accounting estimate related to product warranty is considered a “critical accounting estimate” because judgment is exercised in determining future estimated warranty costs. Should actual performance rates or repair costs differ from estimates, revision to the estimated warranty liability would be required.

Stock-Based Compensation Expense

Our Board of Directors approves grants of stock awards and options to employees to purchase our common stock. Stock-based compensation expense is recorded based upon the estimated fair value of the stock option or stock award at the date of grant. The Company uses the Black-Scholes-Merton option pricing model to estimate the fair value of stock options granted pursuant to ASC Topic 718. The application of this pricing model involves assumptions that are judgmental and sensitive in the determination of compensation expense. The fair market value of our common stock on the date of each option grant is determined based on the most recent quoted sales price on our primary trading stock exchange, currently the NASDAQ Capital Market. For stock options awards under the Company's LTIP (Long-term Incentive Plan), options vest upon the achievement of certain equity market conditions and performance-based milestones. The fair value of options granted under this program were calculated by using a Monte Carlo simulation for the equity market condition tranches and the Black-Scholes-Merton option pricing method for the performance-based tranches. The equity market condition awards are expensed over their derived service periods, which is an output of the Monte Carlo model. Upon the achievement of any market condition milestone, any unrecognized expense to-date would be expensed immediately. The performance-based options, that are currently considered probable of achievement, are expensed over their respective implicit service periods. We may experience significant catch-up or reversal of expense in the future in a period when any performance-based milestones first are determined to be probable of achievement or when any that are currently deemed probable are considered no longer probable.

Income Taxes

We have historically incurred domestic operating losses from both a financial reporting and tax return standpoint. We provide deferred income tax assets and liabilities based on the estimated future tax effects of differences between the financial and tax bases of assets and liabilities based upon currently enacted tax laws. Any future recorded value of our deferred tax assets will be dependent upon our ability to generate taxable income in the jurisdictions in which we operate. These assets consist primarily of credit carry-forwards and net operating loss carry-forwards and the future tax effects of temporary differences between balances recorded for financial statement purposes and for tax return purposes. A valuation allowance is established for deferred tax assets in amounts for which realization is not considered more likely than not to occur. The accounting estimate related to income taxes is considered a “critical accounting estimate” because judgment is exercised in estimating future taxable income, including prudent and feasible tax planning strategies, and in assessing the need for any valuation allowance. To date, we have determined a 100% valuation allowance is required and accordingly no deferred tax asset has been reflected in our consolidated financial statements. In the event that it should be determined that all or part of a deferred tax asset in the future is more likely than not to be realized, an adjustment (reduction) of the valuation allowance would increase income to be recognized in the period such determination was made.

In addition, the calculation of our deferred taxes involves dealing with uncertainties in the application of complex tax regulations. As a result, we recognize liabilities for uncertain tax positions based on the two-step process prescribed by GAAP. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as this requires us to determine the probability of various possible outcomes. We re-evaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period. The Company currently has no uncertain tax positions.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a material effect on our financial condition, financial statements, revenues or expenses.

Recent Accounting Pronouncements

Refer to Note 1

Results of Operations for Fiscal Years Ended December 31, 2021 and December 31, 2020

The following table compares the Company's consolidated statements of operations data for the years ended December 31, 2021 and 2020.

	Year Ended December 31,			
	2021	2020	Dollar Change	% Increase (Decrease)
Sales:				
Sales of Products	\$ 12,784,600	\$ 10,081,209	\$ 2,703,391	27 %
Sales of Engineering Services	380,333	1,500,287	(1,119,954)	(75)%
Total Sales	13,164,933	11,581,496	1,583,437	14 %
Cost of Sales:				
Cost of Sales - Products Sold	10,148,380	8,098,014	2,050,366	25 %
Cost of Sales - Inventory Reserve for Obsolescence	519,950	1,273,835	(753,885)	(59)%
Cost of Sales - Engineering Services	45,758	282,038	(236,280)	(84)%
Total Cost of Sales	10,714,088	9,653,887	1,060,201	11 %
Gross Profit (Loss) (exclusive of depreciation shown separately below)	2,450,845	1,927,609	523,236	27 %
Gross Profit %	19 %	17 %		
Operating Expenses:				
Research and Development	11,674,954	7,568,074	4,106,880	54 %
Selling and Marketing	6,118,929	4,039,772	2,079,157	51 %
General and Administrative	22,502,833	6,915,213	15,587,620	225 %
Depreciation and Amortization	1,870,459	2,458,482	(588,023)	(24)%
Impairment of Patents and Trademarks	80,163	73,532	6,631	9 %
Loss on Fixed Asset Disposal	183,614	—	183,614	N/M
Loss from Operations	(39,980,107)	(19,127,464)	(20,852,643)	109 %
Other Income (Expense):				
Investment Income	53,511	41,120	12,391	30 %
Income and Other Taxes	(307,368)	(103,833)	(203,535)	196 %
Foreign Exchange Loss	(143,196)	(67,895)	(75,301)	111 %
Gain on Debt Extinguishment, net of Loss on Note Receivable	—	1,305,900	(1,305,900)	
Total Other Income (Expense), Net	(397,053)	1,175,292	(1,572,345)	(134)%
Net Loss	\$ (40,377,160)	\$ (17,952,172)	\$ (22,424,988)	125 %

Sales. There was an increase in total sales for the year ended December 31, 2021 from those in 2020 of \$1,583,437 or 14%. The following table reflects the major components of our sales:

	Year Ended December 31, 2021	% of Total Sales	Year Ended December 31, 2020	% of Total Sales	Dollar Change	% Increase (Decrease)
Sales of Smart Glasses	\$ 12,670,874	96 %	\$ 9,948,554	86 %	\$ 2,722,320	27 %
Sales Freight out	113,726	1 %	132,655	1 %	(18,929)	(14)%
Sales of Engineering Services	380,333	3 %	1,500,287	13 %	(1,119,954)	(75)%
Total Sales	<u>\$ 13,164,933</u>	<u>100 %</u>	<u>\$ 11,581,496</u>	<u>100 %</u>	<u>\$ 1,583,437</u>	<u>14 %</u>

Sales of Smart Glasses products rose by \$2,722,320 or 27% in the year ended December 31, 2021, primarily as a result of continued growth of our M400 model and M4000 Smart Glasses sales, as compared to the same period in 2020. Sales revenues from our M-Series Smart Glasses were \$10,254,905, a 22% increase of \$1,848,282 over the prior year. Revenues of Blade Smart Glasses decreased by \$395,529 or 23% in the year ended December 31, 2021 versus the comparable period in 2020 primarily driven by component shortages required to make Blade projector engines in the second half of 2021 and higher unit sales in the prior year's comparable quarter when we offered lower selling prices on the previous Blade model, which we discontinued in the fall of 2020

Sales of Engineering Services for the year ended December 31, 2021 were \$380,333 as compared to \$1,500,287 in the 2020 comparable period. The revenue recognized in the year ended December 31, 2021 for engineering services was primarily a result of waveguide and display engine development projects which commenced in 2020 and were completed in the first quarter of 2021. We believe that ongoing and new engineering services programs have been deferred to give customers time to evaluate and present to their end customers the solutions we helped to design and delivered in 2020 and the first quarter of 2021, which has been made more difficult by the ongoing disruptions caused by COVID-19.

Cost of Sales and Gross Profit (Loss). Cost of product revenues and engineering services are comprised of materials, components, labor, warranty costs, freight costs, manufacturing overhead, software royalties, and the non-cash amortization of software development costs related to the production of our products and rendering of engineering services. The following table reflects the components of our cost of goods sold for products:

	Year Ended December 31, 2021	As % Related Product Sales	Year Ended December 31, 2020	As % Related Product Sales	Dollar Change	% Increase (Decrease)
Product Cost of Sales	\$ 6,224,604	49 %	\$ 5,401,077	54 %	\$ 823,527	15 %
Freight Costs	797,442	6 %	696,340	7 %	101,102	15 %
Manufacturing Overhead	2,396,821	19 %	1,614,964	16 %	781,857	48 %
Warranty Costs	44,526	0 %	45,005	0 %	(479)	(1)%
Amortization of Software Development Costs	439,122	3 %	271,667	3 %	167,455	62 %
Software Royalties	245,865	2 %	68,961	1 %	176,904	257 %
Total Cost of Sales - Products Sold	10,148,380	79 %	8,098,014	80 %	2,050,366	25 %
Gross Profit – Before Reserve for Obsolescence	2,636,220	21 %	1,983,195	20 %	653,025	33 %
Cost of Sales - Inventory Reserve for Obsolescence	519,950		1,273,835		(753,885)	(59)%
Gross Profit - Products Total	2,116,270	17 %	709,360	7 %	1,406,910	198 %
Gross Profit - Engineering Services	334,575		1,218,249		(883,674)	(73)%
Total Gross Profit	\$ 2,450,845		\$ 1,927,609		\$ 523,236	27 %

For the year ended December 31, 2021, we reported an overall gross profit from product sales, before inventory obsolescence, of \$2,636,220 as compared to \$1,983,195 in 2020. On a product cost of sales basis only, product direct costs were 49% of sales in 2021, as compared to 54% in 2020.

Manufacturing overhead costs increased \$781,857 or 48% for the year ended December 31, 2021 as compared to 2020, to 19% from 16% as a percentage of total product sales, primarily due to manufacturing supply chain additional personnel and increased non-cash stock-based compensation expense.

In addition to its normal Reserve for Obsolescence provision, the Company reserved for (i) an additional twenty-five percent of its remaining M300XL finished goods and related accessory inventory on-hand as of December 31, 2021 and (ii) all of its Blade 1.5 excess components that will not be used in current planned builds of the Blade in 2022, due to end-of-life availability of some required components. The total reserve write-down recorded at December 31, 2021 was \$519,950. The write-down and obsolescence provision for finished goods and components totaled \$1,273,835 and \$4,572,659 for the years ended December 31, 2020.

Costs for engineering services for the year ended December 31, 2021 were \$45,758 as compared to \$282,038 in 2020. The majority of the 2021 period amounts represented the reclassification of our internal R&D wage costs associated with waveguide development projects. There was a gross profit of \$334,575 from engineering services for the year ended December 31, 2021 versus \$1,218,249 in 2020.

Research and Development. Our research and development expenses consist primarily of compensation costs for personnel, related stock-based compensation expenses, third-party services, purchase of research supplies and

materials, and consulting fees related to research and development. Software development expenses to determine technical feasibility before final development and ongoing maintenance are not capitalized and are included in research and development costs.

	Year Ended December 31, 2021	% of Total Sales	Year Ended December 31, 2020	% of Total Sales	Dollar Change	% Increase (Decrease)
Research and Development	\$ 11,674,954	89 %	\$ 7,568,074	65 %	\$ 4,106,880	54 %

Research and development costs for the year ended December 31, 2021 increased by \$4,106,880 or 54% as compared to 2020. This increase was largely due to a \$2,532,628 increase in salary and salary benefits related expenses, of which \$944,065 was related to non-cash stock-based compensation; an increase of \$1,173,817 in external development expenses primarily related to our Next Generation Smart Glasses; an increase of \$296,748 in other research and development consulting fees; and an increase of \$99,947 in research and development supplies.

Selling and Marketing. Selling and marketing costs consist of trade show costs, advertising, sales samples, travel costs, sales staff compensation costs including stock-based compensation expense, consulting fees, public relations agency fees, website costs and sales commissions paid to full-time staff and outside consultants.

	Year Ended December 31, 2021	% of Total Sales	Year Ended December 31, 2020	% of Total Sales	Dollar Change	% Increase (Decrease)
Selling and Marketing	\$ 6,118,929	46 %	\$ 4,039,772	35 %	\$ 2,079,157	51 %

Selling and marketing costs for the year ended December 31, 2021 increased by \$2,079,157 or 51% as compared to 2020. This increase was largely due to a \$1,089,571 increase in salary and salary benefits related expenses, of which \$420,661 was related to non-cash stock-based compensation; an increase of \$578,621 in sales consulting and marketing fees, primarily for foreign full-time contractors; a \$595,263 increase in advertising costs; an increase of \$242,570 in website development and maintenance costs; partially offset by decreases of \$316,319 in trade show expenses; a decrease of \$102,215 in commissions largely due to a reduction in commissions payable to TDG (as described in Note 8 of the financial statements) for defense related engineering services; and a decrease of \$35,670 in travel related expenses.

General and Administrative. General and administrative costs include professional fees, investor relations (IR) costs, salaries and related stock compensation, travel costs, office and rental costs.

	Year Ended December 31, 2021	% of Total Sales	Year Ended December 31, 2020	% of Total Sales	Dollar Change	% Increase (Decrease)
General and Administrative	\$ 22,502,833	171 %	\$ 6,915,213	60 %	\$ 15,587,620	225 %

General and administrative costs for the year ended December 31, 2021 increased by \$15,587,620 or 225% as compared 2020. This increase was largely due to a \$13,471,358 increase in salary and salary benefits related expenses, of which \$12,668,230 was related to non-cash stock-based compensation, primarily related to the Company's LTIP, which was implemented in the first quarter of 2021 and unlike traditional time vesting options, option awards under the LTIP vest only upon the achievement of predetermined market equity capitalization, revenue and EBITDA milestones and if participants are currently employed by the Company when the milestones are achieved; an increase of \$875,230 in legal expenses; an increase of \$357,444 in insurance premiums; an increase of \$217,433 in audit and tax advisory fees; an increase of \$205,329 in recruitment and hiring fees; an increase in shareholder related expenses of \$151,524; an increase of \$109,846 in regulatory filing fees; and an increase of \$100,228 in software subscription expenses.

Depreciation and Amortization. Depreciation and amortization expense for the year ended December 31, 2021 was \$1,870,459 as compared to \$2,458,482 in the same period in 2020, a decrease of \$588,023. The decrease in depreciation expense is primarily due to leasehold improvements in our West Henrietta, New York location, which became fully amortized in October 2020.

Other Income (Expense), Net. Total other expense, net was \$397,053 for the year ended December 31, 2021 as compared to income of \$1,175,292 in the period in 2020. The overall decrease of \$1,572,345 in other income was

primarily the result of no gain from debt extinguishment in the year ended December 31, 2021, whereas we had a net gain on debt extinguishment of \$1,305,900 in 2020; an increase of \$203,535 in income, foreign enterprise and other taxes; and an increase of \$75,301 in foreign exchange losses.

Provision for Income Taxes. There were no provisions for income taxes in 2021 or 2020.

Results of Operations for Fiscal Years Ended December 31, 2020 and December 31, 2019

The following table compares the Company's consolidated statements of operations data for the years ended December 31, 2020 and 2019.

	Year Ended December 31,			
	2020	2019	Dollar Change	% Increase (Decrease)
Sales:				
Sales of Products	\$ 10,081,209	\$ 5,997,453	\$ 4,083,756	68 %
Sales of Engineering Services	1,500,287	673,151	827,136	123 %
Total Sales	11,581,496	6,670,604	4,910,892	74 %
Cost of Sales:				
Cost of Sales - Products Sold	8,098,014	6,334,333	1,763,681	28 %
Cost of Sales - Inventory Reserve for Obsolescence	1,273,835	4,572,659	(3,298,824)	(72)%
Cost of Sales - Engineering Services	282,038	171,733	110,305	64 %
Total Cost of Sales	9,653,887	11,078,725	(1,424,838)	(13)%
Gross Profit (Loss) (exclusive of depreciation shown separately below)	1,927,609	(4,408,121)	6,335,730	NM
Gross Profit (Loss) %	17 %	(66)%		
Operating Expenses:				
Research and Development	7,568,074	8,900,837	(1,332,763)	(15)%
Selling and Marketing	4,039,772	4,215,611	(175,839)	(4)%
General and Administrative	6,915,213	6,600,092	315,121	5 %
Depreciation and Amortization	2,458,482	2,441,581	16,901	1 %
Impairment of Patents and Trademarks	73,532	—	73,532	NM %
Loss from Operations	(19,127,464)	(26,566,242)	7,438,778	(28)%
Other Income (Expense):				
Investment Income	41,120	252,416	(211,296)	(84)%
Other Taxes	(103,833)	(110,269)	6,436	(6)%
Foreign Exchange Loss	(67,895)	(52,275)	(15,620)	30 %
Gain on Debt Extinguishment, net of Loss on Note Receivable	1,305,900	—	1,305,900	NM
Total Other Income, Net	1,175,292	89,872	1,085,420	1,208 %
Net Loss	\$ (17,952,172)	\$ (26,476,370)	\$ 8,524,198	(32)%

Sales. There was an increase in total sales for the year ended December 31, 2020 from those in 2019 of \$4,910,892 or 74%. The following table reflects the major components of our sales:

	Year Ended December 31, 2020	% of Total Sales	Year Ended December 31, 2019	% of Total Sales	Dollar Change	% Increase (Decrease)
Sales of Smart Glasses	\$ 9,948,554	86 %	\$ 4,798,910	72 %	\$ 5,149,644	107 %
Sales of OEM Products	—	— %	951,570	14 %	(951,570)	(100)%
Sales of Waveguides & Display Engines	—	— %	152,499	2 %	(152,499)	(100)%
Sales Freight out	132,655	1 %	94,474	2 %	38,181	40 %
Sales of Engineering Services	1,500,287	13 %	673,151	10 %	827,136	123 %
Total Sales	<u>\$ 11,581,496</u>	<u>100 %</u>	<u>\$ 6,670,604</u>	<u>100 %</u>	<u>\$ 4,910,892</u>	<u>74 %</u>

Sales of Smart Glasses products for the year ended December 31, 2020 rose by 107% over the same period in 2019, primarily the result of stronger customer demand for our new M-Series models, which were not available for sale for the entire comparable period in 2019. Sales revenues from our M-Series Smart Glasses were \$8,406,623, a 112% increase of \$4,432,628 over the prior year's comparable period. Total M-Series unit sales increased by 109% for the year ended December 31, 2020 versus the same period in 2019. Revenues of Blade Smart Glasses decreased by \$240,747 or 14%, primarily driven by lower average sales price as compared to 2019.

Sales of OEM Products were nil for the year ended December 31, 2020 as compared to \$951,570 in the 2019 period. No new further customer orders for those particular OEM products have been received since the Spring of 2019 and none are currently contemplated from that customer going forward.

Sales of Standalone Waveguides and Display Engines for the year ended December 31, 2020 were nil versus \$152,499 in the prior year's comparable period. These are made-to-order products and no new orders were received in the 2020 period, outside of small deliveries under our current engineering services programs.

Sales of Engineering Services for the year ended December 31, 2020 were \$1,500,287 as compared to \$673,151 in the 2019 comparable period. The revenue recognized in the year ended December 31, 2020 for engineering services was primarily a result of several waveguide and display engine development projects which commenced in the first and second quarters of 2020. The majority, all but two, of these projects were completed and delivered in 2020.

Cost of Sales and Gross Profit (Loss). Cost of product revenues and engineering services are comprised of materials, components, labor, warranty costs, freight costs, manufacturing overhead, software royalties, and the non-cash amortization of software development costs related to the production of our products and rendering of engineering services. The following table reflects the components of our cost of goods sold for products:

	Year Ended December 31, 2020	As % Related Product Sales	Year Ended December 31, 2019	As % Related Product Sales	Dollar Change	% Increase (Decrease)
Product Cost of Sales	\$ 5,401,077	54 %	\$ 3,817,689	64 %	\$ 1,583,388	41 %
Freight Costs	696,340	7 %	666,115	11 %	30,225	5 %
Manufacturing Overhead	1,614,964	16 %	1,744,517	29 %	(129,553)	(7)%
Warranty Costs	45,005	0 %	(119,154)	(2)%	164,159	(138)%
Amortization of Software Development Costs	271,667	3 %	100,000	2 %	171,667	172 %
Software Royalties	68,961	1 %	125,166	2 %	(56,205)	(45)%
Total Cost of Sales - Products Sold	8,098,014	80 %	6,334,333	106 %	1,763,681	28 %
Gross Profit (Loss) – Before Reserve for Obsolescence	1,983,195	20 %	(336,880)	(6)%	2,320,075	689 %
Cost of Sales - Inventory Reserve for Obsolescence	1,273,835		4,572,659		(3,298,824)	(72)%
Gross Profit (Loss) - Products Total	709,360		(4,909,539)		5,618,899	114 %
Gross Profit - Engineering Services	1,218,249		501,418		716,831	143 %
Total Gross Profit (Loss)	\$ 1,927,609		\$ (4,408,121)		\$ 6,335,730	144 %

For the year ended December 31, 2020, we reported an overall gross profit from product sales, before inventory obsolescence, of \$1,983,195 as compared to a gross loss of \$336,880 in the same period in 2019. On a product cost of sales basis only, product direct costs were 54% of sales in the 2020 period as compared to 64% in 2019, primarily driven by higher margins earned on the M400 in 2020 versus that of the M300 series in the same period in 2019, a period when the M400 was not yet available for sale until the fourth quarter. Product margin was also positively impacted by the sales of some older M-series products that were fully reserved for obsolescence in prior periods.

Manufacturing overhead costs for the year ended December 31, 2020 decreased by \$129,533 or 7% and, as a percentage of total product sales, decreased to 16% from 29% over the same period in 2019. There was warranty expense of \$45,005 for the year ended December 31, 2020 as compared to a gain of \$119,154 in the same period in 2019, as in 2019 warranty returns were substantially less than the amounts that had been previously provisioned for.

In addition to its normal Reserve for Obsolescence provision, for the year ended December 31, 2020, the Company reserved for (i) fifty percent of its finished goods inventory and all of its component parts related to its M300XL Smart Glasses product, as they are at a disadvantaged selling position against our newer, improved M400 product introduced in September 2019 and our new M4000 product introduced in the fourth quarter of 2020 and (ii) all of its finished goods inventory related to its Smart Swim product, as sales of this product have been negligible largely due to decreased venues for its use due to the current pandemic. The total reserve write-down recorded for the fourth quarter ending December 31, 2020 was \$773,235. In addition, the Company had previously written-down \$500,600 through the third quarter of 2020 for the component parts related to its original Blade and Smart Swim products. The

write-down and obsolescence provision totaled \$1,273,835 and \$4,572,659 for the years ended December 31, 2020 and 2019, respectively. These provisions were included in Cost of Sales on the Consolidated Statements of Operations.

Costs for engineering services for the year ended December 31, 2020 were \$282,038 as compared to \$171,733 in 2019. The majority of the 2020 period amounts represented the reclassification of our internal R&D wage costs associated with several waveguide development projects. There was a gross profit of \$1,218,249 from engineering services for the year ended December 31, 2020 versus \$501,418 in the same period in 2019.

Research and Development. Our research and development expenses consist primarily of compensation costs for personnel, related stock-based compensation expenses, third-party services, purchase of research supplies and materials, and consulting fees related to research and development. Software development expenses to determine technical feasibility before final development and ongoing maintenance are not capitalized and are included in research and development costs.

	Year Ended December 31, 2020	% of Total Sales	Year Ended December 31, 2019	% of Total Sales	Dollar Change	% Increase (Decrease)
Research and Development	\$ 7,568,074	65 %	\$ 8,900,837	133 %	\$ (1,332,763)	(15)%

Research and development costs for the year ended December 31, 2020 decreased by \$1,332,763 or 15% as compared to the same period in 2019. This reduction was largely driven by decreases of \$1,074,669 in external consulting fees related to our M400 Smart Glasses development work in 2019 and Blade software development, which was completed in 2019; \$157,232 in net salary, stock-based compensation and hiring costs as a result of reclassifying research and development wages to engineering services costs of sales; \$86,794 in research and development supplies expenses; \$83,297 in travel related expenses; \$56,916 in rental expenses; partially offset by an increase in external consulting fees of \$160,494 related our M4000 development as we brought that product to market in the fourth quarter.

Selling and Marketing. Selling and marketing costs consist of trade show costs, advertising, sales samples, travel costs, sales staff compensation costs including stock-based compensation expense, consulting fees, public relations agency fees, website costs and sales commissions paid to full-time staff and outside consultants.

	Year Ended December 31, 2020	% of Total Sales	Year Ended December 31, 2019	% of Total Sales	Dollar Change	% Increase (Decrease)
Selling and Marketing	\$ 4,039,772	35 %	\$ 4,215,611	63 %	\$ (175,839)	(4)%

Selling and marketing costs for the year ended December 31, 2020 decreased by \$175,839 or 4% as compared to the same period in 2019. This reduction in costs was due to the following factors: a decrease in trade shows of \$387,459; a \$232,607 decrease in external consulting fees paid to foreign sales staff, which were terminated in 2019; a \$149,219 decrease in travel related expenses due to 2020 pandemic conditions, partially offset by a \$276,007 increase in salary and stock-based compensation expenses; a \$192,751 increase in commissions largely due to commissions payable to TDG pursuant to our non-compete agreement amendment (as described in Note 8 of the financial statements); a \$59,844 increase in advertising costs; and a \$93,399 increase in computer software subscriptions.

General and Administrative. General and administrative costs include professional fees, investor relations (IR) costs, salaries and related stock compensation, travel costs, office and rental costs.

	Year Ended December 31, 2020	% of Total Sales	Year Ended December 31, 2019	% of Total Sales	Dollar Change	% Increase (Decrease)
General and Administrative	\$ 6,915,213	60 %	\$ 6,600,092	99 %	\$ 315,121	5 %

General and administrative costs for the year ended December 31, 2020 increased by \$315,121 or 5% as compared to the same period in 2019. This increase in costs was due to a: net increase in salary and stock-based compensation expenses of \$616,466. The net increase was due to a reduction in cash salaries paid of \$230,598, offset by an increase of \$847,064 in stock-based compensation, which resulted from the voluntary salary reduction program that the Company implemented in May 2020; an increase in IR and shareholder related expenses of \$184,468; an increase in insurance premiums of \$87,106; and an increase of \$32,628 in computer and software related expenses; partially offset by a decrease

in legal fees of \$319,831; a decrease in IT and security consulting fees of \$150,000; and a decrease in travel related expenses of \$184,300 due to 2020 pandemic conditions.

Depreciation and Amortization. Depreciation and amortization expense for the year ended December 31, 2020 was \$2,458,482 as compared to \$2,441,581 in the same period in 2019, an increase of \$16,901. The increase in depreciation expense is due to new investments in depreciable assets, including manufacturing equipment and molds placed into service from construction-in-progress, largely offset by a reduction in depreciation expense related to our leasehold improvements in our West Henrietta, New York location, which became fully amortized in October 2020.

Other Income (Expense), Net. Total other income, net was \$1,175,292 for the year ended December 31, 2020 as compared to income of \$89,872 in the comparable period in 2019. The overall increase of \$1,085,420 in other income was primarily the result of a net increase in Gain on Debt Extinguishment, net of Loss on Note Receivable of \$1,305,900. This net gain resulted from our \$1,555,900 gain realized on the forgiveness of our Paycheck Protection Program Loan by the SBA, partially offset by our \$250,000 loss on a term note we purchased in 2019; an increase of \$15,620 in foreign exchange losses; and a decrease of \$211,296 in investment interest income, as interest rates decreased significantly in 2020, as compared to interest rates in 2019.

Provision for Income Taxes. There were no provisions for income taxes in 2020 or 2019.

Liquidity and Capital Resources

Capital Resources. As of December 31, 2021, we had a cash and cash equivalents balance of \$120,203,873, an increase of \$84,134,365 from \$36,069,508 as of December 31, 2020.

As of December 31, 2021, we had current assets of \$137,150,154 as compared to current liabilities of \$4,155,965, which resulted in a positive working capital position of \$132,994,189. As of December 31, 2020, we had a working capital position of \$41,959,763. Our current liabilities are comprised principally of accounts payable, accrued expenses and operating lease right-of-use liabilities.

Summary of Cash Flows:

The following table summarizes our select cash flows for the periods indicated:

	December 31, 2021	December 31, 2020	December 31, 2019
Net Cash Provided by (used in)			
Operating Activities	(26,980,411)	(13,964,053)	(22,355,020)
Investing Activities	(4,852,452)	(1,485,513)	(3,157,539)
Financing Activities	115,967,228	40,912,983	18,855,007

During the year ended December 31, 2021, we used \$26,980,411 of cash for operating activities as compared to \$13,964,053 in 2020. Net changes in working capital items were \$6,999,382 for 2021, which included (i) \$6,590,127 of investments in inventory and vendor prepayments for M400 components; (ii) a \$853,547 increase in customer receivables and (iii) a \$526,825 increase in other prepaid expenses, partially offset by an increase in trade payables and accrued expenses of \$973,883.

During the year ended December 31, 2021, we used \$4,852,452 of cash for investing activities, which includes \$3,809,268 for purchases of manufacturing equipment, product mold tooling, and chip design and tooling fees, \$593,184 of investments in patents and trademarks, \$250,000 in the purchase of software operating system license upgrades for our smart glasses platform, and a \$200,000 equity investment in a strategic business partner. For the year ended December 31, 2020, we used a total of \$1,485,513 in cash for investing activities.

During the year ended December 31, 2021, we received \$115,967,228 in net cash from financing activities, which included: (i) \$91,613,587 in net proceeds from our sales of equity securities that closed on March 30, 2021 and April 1, 2021, (ii) \$34,715,728 in proceeds from the exercise of warrants, and (iii) \$782,277 in proceeds from the exercise of stock options. The proceeds were partially offset by a: (i) \$10,000,000 payment to Intel for the settlement of our accrued Series A Preferred Stock dividends, and (ii) a \$1,144,364 payment for tax withholdings related to our employee stock awards in 2020 that were granted as part of our salary reduction program, which vested in January 2021, whereby the Company paid tax withholding amounts on behalf of the employees in exchange for shares withheld to cover the amounts paid. For the year ended December 31, 2020, we received \$40,912,983 in proceeds from financing activities, primarily from sales of our equity securities and the exercise of stock warrants.

As of December 31, 2021, the Company does not have any current or long-term debt obligations outstanding.

We incurred a net loss for the year ended December 31, 2021 of \$40,377,160 and annual net losses of \$17,952,172 in 2020 and \$26,476,370 in 2019. The Company has an accumulated deficit of \$203,072,143 as of December 31, 2021.

The Company's cash requirements are primarily for funding operating losses, working capital, research and development, and capital expenditures. Our operations are financed primarily through the net proceeds from the sale of our equity securities. As of December 31, 2021, our principal sources of liquidity consisted of cash and cash equivalents of \$120,203,873.

In response to the impacts of COVID-19 and its impact on supply chain time lines and component shortages, we increased the pace of the Company's investment in inventory in 2021. We anticipate that rate of growth to moderate or decline in 2022 and beyond.

On January 28, 2021, the sole holder converted all of its 49,626 shares of Series A Preferred Stock into 4,962,600 shares of common stock and the shares of Series A Preferred Stock have been retired and cannot be reissued. The Company and holder also entered into an agreement on the conversion date pursuant to which the holder agreed to accept \$10,000,000 in full payment of all accrued Series A Preferred Share dividends in the approximate amount of \$10,800,000.

The Company needs to grow its business significantly to become profitable and self-sustaining on a cash flow basis or it will be required to raise new capital. Our cash requirements related to funding operating losses depend on numerous factors, including new product development activities, our ability to commercialize our products, our products' timely market acceptance, selling prices and gross margins, and other factors.

We believe our existing cash and cash equivalent balances will be sufficient to meet our long-term working capital and capital expenditure needs for at least the next 12 months. We intend to increase our levels of investing activities for our 2022 fiscal year as compared to 2021, primarily on new product development as well as increase our R&D spending over that of 2021. Our future capital requirements may vary materially from those currently planned and will depend on many factors, including our rate of revenue growth, the timing and extent of spending on research and development efforts and other business initiatives, our planned sales and marketing activities, the timing of new product introductions, market acceptance of our products and overall economic conditions.

To the extent that current and anticipated sources of liquidity are insufficient to fund our future business activities and requirements, we may be required to seek additional equity financing. The sale of additional equity would result in increased dilution to our stockholders. However, there can be no assurance that we will be able to raise capital in the future or that if we raise additional capital it will be sufficient to execute our business plan in place at the time

Contractual Obligations

The following is a summary of our contractual payment obligations for operating leases as of December 31, 2021:

Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating Lease Obligations	\$ 1,152,408	\$ —	\$ 1,152,408	—	—
Software License Obligations	566,316	566,316	—	—	—
Open Purchase Obligations	6,035,000	6,035,000	—	—	—

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk.*

We invest our excess cash in short-term highly rated corporate debt instruments or commercial paper, which bear lower levels of relative risk. We believe that the effect, if any, of reasonably possible near-term changes in interest rates on our financial position, results of operations and cash flows should not be material to our cash flows or income. It is possible that interest rate movements would increase our unrecognized gain or loss on interest rate securities. Our portfolio of marketable debt securities is subject to interest rate risk although our intent is to hold securities until maturity. The credit rating of our investments may be affected by the underlying financial health of the guarantors of our investments. Our investment policy generally directs our investment managers to select investments to achieve the following goals: principal preservation, adequate liquidity, and return.

We are exposed to changes in foreign currency exchange rates primarily through the translation of our foreign subsidiary's financial positions, results of operations, and transaction gains and losses as a result of non-U.S. dollar denominated cash flows related to business activities in Asia and the United Kingdom, and remeasurement of U.S. dollars to the functional currency of our foreign subsidiaries. We are also exposed to the effects of exchange rates in the purchase of certain raw materials whose price is in U.S. dollars but the price on future purchases is subject to change based on the relationship of the Japanese Yen to the U.S. Dollar. We do not currently hedge our foreign currency exchange rate risk. We estimate that any market risk associated with our international operations is unlikely to have a material adverse effect on our business, financial condition or results of operation.

Item 8. *Financial Statements and Supplementary Data*

The information required by this item is incorporated herein by reference to pages F-1 through F-29 of this annual report and is indexed under Item 15(a)(1) and (2).

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A. Controls and Procedures

The information contained in this section covers management's evaluation of our disclosure controls and procedures and our assessment of our internal control over financial reporting as of December 31, 2021.

(a) Evaluation of Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this annual report as required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Disclosure controls and procedures are those controls and other procedures that are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is properly recorded, processed, summarized, and reported, within the time periods specified by the rules and forms promulgated by the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is properly accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions

regarding required disclosure. As a result of this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2021, our disclosure controls and procedures were not effective because of the material weakness in internal control over financial reporting described below.

(b) Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate “internal control over financial reporting,” as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act. Our system of internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with US GAAP.

Our internal control over financial reporting includes those policies and procedures that: (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with US GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and Board of Directors; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized use, acquisition, or disposition of our assets that could have a material effect on the consolidated financial statements.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our internal control over financial reporting as of December 31, 2021, and they concluded that our internal control over financial reporting was not effective as of December 31, 2021. In making this assessment, we utilized the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control — Integrated Framework (2013).

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Management identified the following deficiency in internal control over financial reporting as of December 31, 2021: Management in performing ongoing reviews of its valuation methodology, identified an error with respect to its initial determination of the fair market value of the Long Term Incentive Plan stock options issued in March 2021 for the achievement of certain equity market capitalization milestones which it identified, revised and corrected in the consolidated financial statements in the fourth quarter of 2021. The impact of this change, is further described in Note 2.

Because there was material error noted impacting current year interim periods that material misstatement of the consolidated financial statements will not be prevented or detected on a timely basis, we concluded the deficiency represents a material weakness in our internal control over financial reporting and our internal control over financial reporting was not effective as of December 31, 2021. The attestation report of Freed Maxick CPAs, P.C., our independent registered public accounting firm, on the Company’s internal control over financial reporting is provided under the caption “Report of Independent Registered Public Accounting Firm” in this Annual Report on Form 10-K.

The Company’s independent registered public accounting firm, Freed Maxick CPAs, P.C., who audited the consolidated financial statements included in this Annual Report on Form 10-K, has issued an adverse opinion of its attestation report on the effectiveness of the management’s internal control over financial reporting as of December 31, 2021.

Remediation Activities

We take this material weakness seriously. We have already taken steps to remediate this material weakness and will continue to take further steps until such remediation is complete. These steps include the following:

- a) Retaining additional resources, including third-party resources, with the appropriate technical accounting expertise and valuation expertise to be able to assist us in identifying and addressing any complex technical accounting issues that affect our consolidated financial statements.
- b) We will report regularly to the Company's Audit Committee on the progress and results of our remediation plan.

As we work to improve our internal control over financial reporting, we may modify our remediation plan and may implement additional measures as we continue to review, optimize and enhance our financial reporting controls and procedures in the ordinary course. The material weakness will not be considered remediated until the remediated controls have been operating for a sufficient period of time and can be evidenced through testing that they are operating effectively.

(c) Limitations on the Effectiveness of Controls.

Because of its inherent limitations, internal control over financial reporting, no matter how well-conceived or operated, can only provide reasonable assurance, not absolute assurance, that the objectives of the control system are met. Such controls may not prevent or detect every misstatement. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

(d) Change in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the three months ended December 31, 2021 that has materially affected, or is likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Vuzix Corporation

Opinion on the Internal Control Over Financial Reporting

We have audited Vuzix Corporation's (the Company) internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, because of the effect of the material weakness described below on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets, statements of operations, changes in stockholders' equity and cash flows of the Company and our report dated March 2, 2022 expressed an unqualified opinion.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment:

The Company failed to execute its responsibilities with respect to internal control over financial reporting relating to its initial determination of the fair market value of the Long-term Incentive Plan stock options issued in March 2021 for the achievement of certain equity market capitalization milestones. As a consequence, an error was identified in the consolidated financial statements in fourth quarter of 2021. The Company identified, revised and corrected the error in the fourth quarter of 2021.

This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2021 financial statements, and this report does not affect our report dated March 2, 2022 on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Freed Maxick CPAs, P.C.

Buffalo, New York
March 2, 2022

Item 9B. Other Information

None.

Item 9C.

Not applicable.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

The information required by this item will be presented in our definitive proxy statement not later than 120 days after the end of the fiscal year covered by this annual report and is incorporated in this annual report by reference thereto.

Item 11. *Executive Compensation*

The information required by this item will be presented in our definitive proxy statement not later than 120 days after the end of the fiscal year covered by this annual report and is incorporated in this annual report by reference thereto, except, however, the section entitled “Compensation Committee Report” shall not be deemed to be “soliciting material” or to be filed with the Securities and Exchange Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act of 1934, as amended.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this item will be presented in our definitive proxy statement not later than 120 days after the end of the fiscal year covered by this annual report and is incorporated in this annual report by reference thereto.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this item will be presented in our definitive proxy statement not later than 120 days after the end of the fiscal year covered by this annual report and is incorporated in this annual report by reference thereto.

Item 14. *Principal Accountant Fees and Services*

The information required by this item will be presented in our definitive proxy statement not later than 120 days after the end of the fiscal year covered by this annual report and is incorporated in this annual report by reference thereto.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report

(1) Financial Statements

	<u>Page</u>
Report of Independent Registered Public Accounting Firm (PCAOB ID 317)	F-2
Consolidated Balance Sheets — As of December 31, 2021 and 2020	F-4
Consolidated Statements of Changes In Stockholders' Equity — For The Years Ended December 31, 2021, 2020 and 2019	F-5
Consolidated Statements of Operations — For the Years Ended December 31, 2021, 2020 and 2019	F-6
Consolidated Statements of Cash Flows — For the Years Ended December 31, 2021, 2020 and 2019	F-7
Notes to Consolidated Financial Statements	F-8

(2) Financial Statement Schedules

Schedule II – Valuation and Qualifying Accounts

Schedules other than the one listed above have been omitted because of the absence of conditions under which they are required or because the required information is included in the consolidated financial statements or the notes thereto.

(3) Exhibits

A list of exhibits filed with this annual report is set forth in the Exhibit Index and is incorporated in this Item 15(a)(3) by reference.

VUZIX CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Balance Sheets — As of December 31, 2021 and 2020	F-4
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Consolidated Statements of Cash Flows — For the Years Ended December 31, 2021, 2020 and 2019	F-7
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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Vuzix Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Vuzix Corporation and its subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes to the consolidated financial statements and schedules (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 2, 2022 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

Restatement of Previously Issued Unaudited Quarterly Financial Statements

As discussed in Note 2 to the consolidated financial statements, Management identified a correction of an error which impacted stock-based compensation in the 2021 unaudited quarterly financial information.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Estimate for excess, obsolete and slow-moving inventory reserve

Critical Audit Matter Description

As discussed in Notes 1 and 4 to the consolidated financial statements, inventories are stated at the lower of cost or net realizable value using the weighted average first-in, first-out method. The Company records provisions for excess, obsolete or slow-moving inventory based on changes in customer demand, technology developments or other economic factors. The Company's products have product life cycles that range on average from two to three years. At both the product

introduction and product discontinuation stage, there is a higher degree of risk of inventory obsolescence. The excess, obsolete or slow-moving reserve serves to reduce the Company's inventory balance through a charge to cost of sales – products sold.

The Company's reserve for excess, obsolete or slow-moving inventory is based upon estimates on the evaluation of historical sales, current economic trends and expected future product sales, which can be difficult to forecast. If the actual realization of excess, obsolete, and slow-moving inventory does not meet the Company's assumptions future inventory adjustments would result in a decrease in gross profit. Due to the magnitude of the inventory, and the subjectivity involved in estimating the reserve we identified the evaluation of the reserve as a critical audit matter, which required a high degree of auditor judgment.

How the Critical Audit Matter Was Addressed in the Audit

Addressing the matter involved performing subjective procedures and evaluating audit evidence in connection with forming our overall opinion on the financial statements. The primary procedures we performed included, performing a retrospective review of prior year-estimates used to identify potential bias of management judgments; obtaining an understanding of the process and assumptions used by management to develop the reserve for excess, obsolete and slow-moving inventory; testing the effectiveness of controls over management's estimate of reserves for excess, obsolete, and slow-moving inventory; and testing management's calculation of the reserve for excess, obsolete, and slow-moving inventory by: testing the completeness and accuracy of the source information used, testing the mathematical accuracy of management's calculations, and evaluating the reasonableness and consistency of methodology and assumptions applied by management.

Valuation of market condition options Critical Audit Matter Description

As discussed in Notes 1 and 15 to the consolidated financial statements, the Company granted options to its Chief Executive Officer, Chief Financial Officer and certain members of its management team that vest upon achievement of specified market capitalization targets through March 16, 2031. The grant date fair value of the market-based options was approximately \$33.6 million. The market conditions are included in the determination of the estimated fair value of the market-based options. With the assistance of valuation specialists, the Company estimated the fair value of the market-based options using the Monte Carlo simulation model that utilizes various assumptions, including the time until the specified market capitalization target is achieved, the estimated life of the option, as well as volatility. Due to the magnitude of the option grant, and the subjectivity involved in estimating the valuation we identified the valuation as a critical audit matter, which required a high degree of complex auditor judgment.

How the Critical Audit Matter Was Addressed in the Audit

Auditing the valuation of the Company's market-based options was complex due to the use of the Monte Carlo simulation model and involved the use of valuation specialists. Also, auditing the valuation of the market-based options is highly judgmental due to the significant estimation required to determine the assumptions used in the valuation model, including the time until the specified market capitalization target is achieved, the estimated life of the option, as well as volatility. To test the fair value of the Company's market-based options, our audit procedures included, among others, assessing the appropriateness of the use of the Monte Carlo simulation model and the underlying calculations, as well as testing the assumptions used to calculate the fair value of market-based options. To test the volatility assumption, we compared the historical volatility of the Company to the volatility used to value the market-based options. We involved valuation specialists to assist us with evaluating the Monte Carlo simulation model and the assumptions used in the model, as well as to perform comparative calculations.

/s/ Freed Maxick CPAs, P.C.

We have served as the Company's auditor since 2014.

Buffalo, New York
March 2, 2022

VUZIX CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31, 2021	December 31, 2020
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 120,203,873	\$ 36,069,508
Accounts Receivable	2,242,429	1,388,882
Inventories, Net	12,151,982	6,100,824
Licenses, Net	—	272,444
Manufacturing Vendor Prepayments	504,051	485,032
Prepaid Expenses and Other Assets	2,047,819	738,561
Total Current Assets	137,150,154	45,055,251
Long-Term Assets		
Fixed Assets, Net	5,190,438	2,837,402
Operating Lease Right-of-Use Asset	1,117,022	1,517,306
Patents and Trademarks, Net	1,988,370	1,593,049
Licenses, Net	1,389,936	193,687
Intangible Asset, Net	147,548	566,456
Other Assets, Net	1,483,589	708,333
Total Assets	\$ 148,467,057	\$ 52,471,484
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	\$ 2,054,762	\$ 1,517,155
Unearned Revenue	27,797	41,152
Accrued Expenses	1,419,308	983,033
Income and Other Taxes Payable	120,242	109,653
Operating Lease Right-of-Use Liability	534,146	444,495
Total Current Liabilities	4,156,255	3,095,488
Long-Term Liabilities		
Operating Lease Right-of-Use Liability	582,876	1,072,811
Total Liabilities	4,739,131	4,168,299
Stockholders' Equity		
Preferred Stock - \$0.001 Par Value, 5,000,000 Shares Authorized; zero and 49,626 Shares Issued and Outstanding as of December 31, 2021 and December 31, 2020.	—	50
Common Stock - \$0.001 Par Value, 100,000,000 Shares Authorized; 63,672,268 and 45,645,166 Shares Issued and Outstanding as of December 31, 2021 and December 31, 2020.	63,672	45,645
Additional Paid-in Capital	346,736,397	210,952,473
Accumulated Deficit	(203,072,143)	(162,694,983)
Total Stockholders' Equity	143,727,926	48,303,185
Total Liabilities and Stockholders' Equity	\$ 148,467,057	\$ 52,471,484

The accompanying notes are an integral part of these consolidated financial statements.

VUZIX CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance - December 31, 2018	49,626	\$ 50	27,591,670	\$ 27,591	\$ 148,695,775	\$ (118,266,441)	\$ 30,456,975
Stock-Based Compensation Expense	—	—	57,496	58	1,404,773	—	1,404,831
Proceeds from Common Stock Offerings	—	—	5,479,454	5,479	19,994,528	—	20,000,007
Direct Costs of Common Stock Offerings	—	—	—	—	(1,145,000)	—	(1,145,000)
2019 Net Loss	—	—	—	—	—	(26,476,370)	(26,476,370)
Balance - December 31, 2019	<u>49,626</u>	<u>\$ 50</u>	<u>33,128,620</u>	<u>\$ 33,128</u>	<u>\$ 168,950,076</u>	<u>\$ (144,742,811)</u>	<u>\$ 24,240,443</u>
Stock-Based Compensation Expense	—	—	942,986	943	2,656,888	—	2,657,831
Proceeds from Common Stock Offerings	—	—	8,647,059	8,647	26,741,355	—	26,750,002
Direct Costs of Common Stock Offerings	—	—	—	—	(1,550,666)	—	(1,550,666)
Stock Warrant Exercises	—	—	2,882,647	2,883	14,125,644	—	14,128,527
Stock Option Exercises	—	—	43,854	44	29,176	—	29,220
2020 Net Loss	—	—	—	—	—	(17,952,172)	(17,952,172)
Balance - December 31, 2020	<u>49,626</u>	<u>\$ 50</u>	<u>45,645,166</u>	<u>\$ 45,645</u>	<u>\$ 210,952,473</u>	<u>\$ (162,694,983)</u>	<u>\$ 48,303,185</u>
Stock-Based Compensation Expense	—	—	368,047	368	18,429,556	—	18,429,924
Stock Option Exercises	—	—	659,398	659	781,618	—	782,277
Stock Warrant Exercises	—	—	7,276,928	7,277	34,708,451	—	34,715,728
Proceeds from Common Stock Offerings	—	—	4,768,293	4,768	97,745,239	—	97,750,007
Direct Costs of Common Stock Offerings	—	—	—	—	(6,136,420)	—	(6,136,420)
Shares Redeemed to Cover Employee Tax Withholdings	—	—	(83,164)	(83)	(1,144,282)	—	(1,144,365)
Stock Issued for Technology License Purchase	—	—	75,000	75	1,404,675	—	1,404,750
Preferred Stock Converted	(49,626)	(50)	4,962,600	4,963	(10,004,913)	—	(10,000,000)
2021 Net Loss	—	—	—	—	—	(40,377,160)	(40,377,160)
Balance - December 31, 2021	<u>—</u>	<u>\$ —</u>	<u>63,672,268</u>	<u>\$ 63,672</u>	<u>\$ 346,736,397</u>	<u>\$ (203,072,143)</u>	<u>\$ 143,727,926</u>

The accompanying notes are an integral part of these consolidated financial statements.

VUZIX CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	For Years Ended December 31,		
	2021	2020	2019
Sales:			
Sales of Products	\$ 12,784,600	\$ 10,081,209	\$ 5,997,453
Sales of Engineering Services	380,333	1,500,287	673,151
Total Sales	13,164,933	11,581,496	6,670,604
Cost of Sales:			
Cost of Sales - Products Sold	10,148,380	8,098,014	6,334,333
Cost of Sales - Inventory Reserve for Obsolescence	519,950	1,273,835	4,572,659
Cost of Sales - Engineering Services	45,758	282,038	171,733
Total Cost of Sales	10,714,088	9,653,887	11,078,725
Gross Profit (Loss) (exclusive of depreciation shown separately below)	2,450,845	1,927,609	(4,408,121)
Operating Expenses:			
Research and Development	11,674,954	7,568,074	8,900,837
Selling and Marketing	6,118,929	4,039,772	4,215,611
General and Administrative	22,502,833	6,915,213	6,600,092
Depreciation and Amortization	1,870,459	2,458,482	2,441,581
Loss on Fixed Asset Disposal	183,614	—	—
Impairment of Patents and Trademarks	80,163	73,532	—
Total Operating Expenses	42,430,952	21,055,073	22,158,121
Loss From Operations	(39,980,107)	(19,127,464)	(26,566,242)
Other Income (Expense):			
Investment Income	53,511	41,120	252,416
Income and Other Taxes	(307,368)	(103,833)	(110,269)
Foreign Exchange Loss	(143,196)	(67,895)	(52,275)
Gain on Debt Extinguishment, net of Loss on Note Receivable	—	1,305,900	—
Total Other Income (Expense), Net	(397,053)	1,175,292	89,872
Loss Before Provision for Income Taxes	(40,377,160)	(17,952,172)	(26,476,370)
Provision for Income Taxes	—	—	—
Net Loss	(40,377,160)	(17,952,172)	(26,476,370)
Preferred Stock Dividends - Accrued not Paid	—	(2,056,150)	(1,931,860)
Loss Attributable to Common Stockholders	\$ (40,377,160)	\$ (20,008,322)	\$ (28,408,230)
Basic and Diluted Loss per Common Share	\$ (0.66)	\$ (0.53)	\$ (0.94)
Weighted-average Shares Outstanding - Basic and Diluted	61,125,215	38,109,765	30,348,452

The accompanying notes are an integral part of these consolidated financial statements.

VUZIX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2021	2020	2019
Cash Flows from Operating Activities			
Net Loss	\$ (40,377,160)	\$ (17,952,172)	\$ (26,476,370)
Non-Cash Adjustments			
Depreciation and Amortization	1,870,459	2,458,482	2,441,581
Amortization of Software Development Costs and Prepaid Licenses in Cost of Sales - Products	439,112	183,328	100,000
Stock-Based Compensation	17,302,833	2,805,842	1,498,357
Impairment of Patents and Trademarks	80,163	73,532	—
Loss on Fixed Asset Disposal	183,614	—	—
Gain on Debt Extinguishment, net of Loss on Note Receivable	—	(1,305,900)	—
Inventory Reserve for Obsolescence	519,950	1,273,835	4,572,659
(Increase) Decrease in Operating Assets			
Accounts Receivable	(853,547)	(289,413)	(599,577)
Inventories	(6,571,108)	(1,666,792)	(2,998,724)
Manufacturing Vendor Prepayments	(19,019)	(242,493)	512,680
Prepaid Expenses and Other Assets	(526,825)	156,537	414,997
Increase (Decrease) in Operating Liabilities			
Accounts Payable	537,607	454,370	(1,605,456)
Accrued Expenses	436,276	97,136	21,819
Customer Deposits	—	—	(152,362)
Unearned Revenue	(13,355)	(101,311)	(69,263)
Income and Other Taxes	10,589	90,966	(15,361)
Net Cash Flows Used in Operating Activities	(26,980,411)	(13,964,053)	(22,355,020)
Cash Flows from Investing Activities			
Purchases of Fixed Assets	(3,809,268)	(496,629)	(1,898,771)
Investments in Patents and Trademarks	(593,184)	(488,884)	(250,304)
Investments in Licenses, Intangible and Other Assets	(450,000)	—	(758,464)
Notes Receivable	—	—	(250,000)
Investments in Software Development	—	(500,000)	—
Net Cash Flows Used in Investing Activities	(4,852,452)	(1,485,513)	(3,157,539)
Cash Flows from Financing Activities			
Proceeds from Exercise of Warrants	34,715,728	14,128,527	—
Proceeds from Exercise of Stock Options	782,277	29,220	—
Proceeds from Common Stock Offering, Net	91,613,587	25,199,336	18,855,007
Preferred Dividend Settlement Payment	(10,000,000)	—	—
Employee Tax Withholdings Payment	(1,144,364)	—	—
Proceeds from Term Note	—	1,555,900	—
Net Cash Flows Provided from Financing Activities	115,967,228	40,912,983	18,855,007
Net Increase in Cash and Cash Equivalents	84,134,365	25,463,417	(6,657,552)
Cash and Cash Equivalents - Beginning of Period	36,069,508	10,606,091	17,263,643
Cash and Cash Equivalents - End of Period	\$ 120,203,873	\$ 36,069,508	\$ 10,606,091
Supplemental Disclosures			
Unamortized Common Stock Expense included in Prepaid Expenses and Other Assets	\$ 1,365,242	\$ 219,051	\$ 83,475
Non-Cash Investment in Licenses	1,294,262	272,444	—
Stock-Based Compensation Expense - Expensed less Previously Issued	(1,127,091)	148,011	93,587

The accompanying notes are an integral part of these consolidated financial statements.

VUZIX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Summary of Significant Accounting Policies

Operations

Vuzix Corporation (the Company) was formed in 1997 under the laws of the State of Delaware and maintains its corporate offices in West Henrietta, New York (a suburb of Rochester). We are engaged in the design, manufacture, marketing and sale of augmented reality wearable display and computing devices also referred to as head mounted displays (or HMDs, but also known as near-eye displays), in the form of Smart Glasses and Augmented Reality (AR) glasses. Our AR wearable display devices are worn like eyeglasses or attach to a head worn mount. These devices typically include cameras, sensors, and a computer that enable the user to view, record and interact with video and digital content, such as computer data, the Internet, social media or entertainment applications. Our wearable display products integrate micro-display technology with our advanced optics to produce compact high-resolution display engines, less than half an inch diagonally, which when viewed through our smart glasses products create virtual images that appear comparable in size to that of a computer monitor or a large-screen television. The wearable display products we produce can be used for a variety of enterprise, commercial and medical uses and applications, including AR for on-the-go users and as mobile displays and remote service support. Our products are available with varying features and are offered as monocular and binocular display systems.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned UK subsidiary, Vuzix (Europe) Limited. All significant inter-company transactions have been eliminated.

Segment Data, Geographic Information and Significant Customers

The Company is not organized by market and is managed and operated as one business. A single management team that reports to the chief operating decision maker comprehensively manages the entire business. The Company does not operate any material separate lines of business or separate business entities. Accordingly, the Company does not accumulate discrete information, other than product revenue and material costs, with respect to separate product lines and does not have separately reportable segments as defined by FASB ASC Topic 280, "Disclosures about Segments of an Enterprise and Related Information".

Refer to Note 19 — Geographic and Other Financial Information (Unaudited).

Foreign Currency Transactions

The Company considers the US dollar as the functional currency of the Company's UK Subsidiary. The Company's UK Subsidiary transacts in Euros and British pounds. All transactions in foreign currencies are recorded in US dollars at the then current exchange rate(s). Upon settlement of the underlying transaction, all amounts are re-measured to US dollars at the current exchange rate on date of settlement. All unsettled foreign currency transactions that remain in accounts receivable and trade account payables are re-measured to US dollars at the period end exchange rates. All re-measurement gains and losses are recorded in the current period net income.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at year-end and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

The Company maintains its cash in bank deposit accounts, which at times may exceed federally insured limits.

Cash and Cash Equivalents

Cash and cash equivalents can include highly liquid investments with original maturities of three months or less.

Fair Value of Financial Instruments

The Company's financial instruments primarily consist of cash and cash equivalents, accounts receivable, notes receivable, accounts payable, unearned revenue, accrued expenses, and income taxes payable. As of the consolidated balance sheet dates, the estimated fair values of the financial instruments were not materially different from their carrying values as presented due to the short maturities of these instruments.

Accounts Receivable

The Company carries its trade accounts receivable at the invoice amount less an allowance for doubtful accounts. The Company establishes an allowance for uncollectible trade accounts receivable based on the age of outstanding invoices and management's evaluation of collectability of outstanding balances. These provisions are established when the aging of outstanding amounts exceeds allowable terms and are re-evaluated at each quarter end for adequacy. In determining the adequacy of the provision, the Company considers known uncollectible or at-risk receivables. The allowance for doubtful accounts as of December 31, 2021, 2020 and 2019 was nil. The Company does not accrue interest on any past due accounts receivable unless such receivable goes into collection.

Customer and Supplier Concentrations

One customer represented 10% of total product revenue and four customers represented 39%, 28%, 16% and 12%, respectively, of our engineering services revenue for the year ended December 31, 2021. No one customer represented more than 10% of total product revenue and two customers represented 48% and 26%, respectively, of our engineering services revenue for the year ended December 31, 2020. One customer represented 16% of total product revenue and one customer represented 100% of engineering services revenue for the year ended December 31, 2019.

Three customers represented 27%, 20% and 10%, respectively, of accounts receivable at December 31, 2021. Two customers represented 21% and 14%, respectively, of accounts receivable at December 31, 2020. Three customers represented 32%, 26% and 13%, respectively, of accounts receivable at December 31, 2019.

Two third-party vendors represented 38% and 24%, respectively, of material purchases for the year ended December 31, 2021. As of December 31, 2021, the net amount due to these vendors was \$504,073.

Accrued Project Revenue

The Company carries accrued project revenue based on the percentage of completion on the project measured using the input method based upon costs incurred to-date as a percentage of total expected costs to complete the project less amounts invoiced, if any. As of December 31, 2021, 2020 and 2019, we had nil in accrued project revenue.

Inventories

Inventories are valued at the lower of cost or net realizable value using the weighted average first-in, first-out method. The Company includes labor and overhead costs in its inventory valuation costing. The Company records provisions for excess, obsolete or slow-moving inventory based on changes in customer demand, technology developments or other economic factors. The Company's products have product life cycles that range on average from two to three years currently. At both the product introduction and product discontinuation stage, there is a higher degree of risk of inventory obsolescence. The provision for obsolete and excess inventory is evaluated for adequacy at each quarter end. The estimate

of the provision for obsolete and excess inventory is partially based on expected future product sales, which are difficult to forecast for certain products.

Revenue Recognition

The Company adopted the new guidance on Revenue from Contracts with Customers under FASB ASC Topic 606, "Revenue from Contracts with Customers", as of January 1, 2018. Product sales represent the majority of the Company's revenue. The Company recognizes revenue from these product sales as performance obligations are satisfied and transfer of control and ownership to the customer has occurred, typically upon physical shipment. Revenue is recognized in the amount that the Company expects to receive in exchange from the sale of our products. FOB shipping point is our standard shipping term and revenue is recognized as our products ship to customers, as control and ownership are transferred at this point in time. All of our standard product sales include a 30-day money back guarantee and expected returns are estimated at each reporting period date and a portion of revenue is deferred for all estimated returns. As of December 31, 2021 and 2020, deferred revenue associated with our expected returns were immaterial. The Company collects and remits sales taxes in certain jurisdictions and reports revenue net of any associated sales taxes.

Revenue from any engineering consulting and other services is recognized at the time the services are rendered. The Company accounts for its longer-term development contracts, which to date have all been firm fixed-priced contracts, on the percentage-of-completion method, whereby income is recognized as work on contracts progresses, but estimated losses on contracts in progress are charged to operations immediately. The percentage-of-completion is determined using the cost-to-cost method. To date, all such contracts have been less than one calendar year in duration.

Unearned Revenue

These amounts represent deferred revenue against our expected product sales returns for all December 2021 products sales that are subject to the Company's 30-day money back guarantee return policy.

Cost of Product Sales

Cost of product sales includes the direct and allocated indirect costs of products sold to customers. Direct costs include labor, materials, reserves for estimated warranty expenses, and other costs incurred directly, or charged to us by our contract manufacturers in the manufacture of these products. Indirect costs include labor, manufacturing overhead, and other costs associated with operating our manufacturing facility and capacity. Manufacturing overhead includes the costs of procuring, inspecting and storing material, facility and other costs, and is allocated to cost of product revenue based on the proportion of indirect labor which supported production activities. Depreciation on manufacturing tools and equipment is included in Operating Expenses in our consolidated statement of operations. The cost of product sales can fluctuate significantly from period to period, depending on the product mix and volume, the level of manufacturing overhead expense and the volume of direct cost of materials.

Cost of Engineering Services Sales

Cost of engineering services revenues includes both the direct and allocated indirect costs of performing on contracts and producing prototype units. Direct costs include labor, materials and other costs incurred directly in performing under the contract. Direct costs also include labor and other costs associated with operating our research and development department based on the level of effort supporting the development activity. Cost of engineering sales is determined by the level of direct and indirect costs incurred, which can fluctuate substantially from period to period.

Fixed Assets

Fixed assets are stated at cost. Depreciation of fixed assets is provided for using the straight-line method over the following estimated useful lives:

Computers and Purchased Software	3 years
Leasehold Improvements	Lesser of expected life or lease term
Manufacturing Equipment	5 years
Tooling	3 years
Furniture and Equipment	5 years

Repairs and maintenance costs are expensed as incurred. Asset betterments are capitalized and depreciated over their expected useful life.

Patents and Trademarks

The Company capitalizes the costs of obtaining its patents and registration of trademarks. Such costs are accumulated and capitalized during the filing periods, which can take several years to complete. Successful applications that result in the granting of a patent or trademark are then amortized over 15 years on a straight-line basis. Unsuccessful applications are written off and expensed in the fiscal period where the application is abandoned or discontinued. Ongoing maintenance and legal fees for issued patents and trademarks are expensed as incurred.

Software Development Costs

The Company capitalizes the costs of obtaining or developing its software once technological feasibility has been determined by management or of purchased software solutions when placed into service. Such costs are accumulated and capitalized. Projects can take several years to complete. Unsuccessful or discontinued software projects are written off and expensed in the fiscal period when the software development effort is abandoned or discontinued. Costs incurred internally in researching and developing a computer software product are charged to expense until technological feasibility has been established for the product. Once technological feasibility is established, all software costs are capitalized until the product is available for general release to customers. Judgment is required in determining when technological feasibility of a product is established. Once the product is available for general release, accumulated costs are amortized over the life of the asset. The amortization of these costs is included in cost of product sales over the estimated life of the products, which currently is estimated as three years using a straight-line basis. As of December 31, 2021, 2020 and 2019, we had \$541,666, \$458,333 and \$100,000, respectively, of net software development costs included in Other Assets. For the years ended December 31, 2021, 2020 and 2019, there was nil in impairment of software development costs.

Licenses

The Company capitalizes the costs of acquiring licenses and prepaid royalties. They are amortized on either a per unit basis or straight line over the life of the license. In some cases, future royalties are subject to annual limits.

Long-Lived Assets

The Company at least annually assesses all of its long-lived assets for impairment and when events or circumstances indicate their carrying amounts may not be recoverable, in accordance with FASB ASC Topic 360-10, "Accounting for the Impairment or Disposal of Long-Lived Assets." For the years ended December 31, 2021 and 2020, there was an impairment charge of \$80,163 and \$73,532, respectively, to Patents and Trademarks and nil in 2019. For the year ended December 31, 2021, we recorded a loss on fixed asset disposal of \$183,614 upon the retirement of certain tooling and manufacturing equipment assets no longer in use. No loss on fixed asset disposal charges on tooling and equipment were recorded in 2020 or 2019.

Research and Development

Research and development costs are expensed as incurred consistent with the guidance of FASB ASC Topic 730, "Research and Development," and include employee related costs, office expenses, third-party design and engineering services, and new product prototyping costs. Costs incurred internally in researching and developing a computer software product are charged to expense until technological feasibility has been established for the product.

Shipping and Handling Costs

Amounts charged to customers and costs incurred by the Company related to shipping and handling are included in net sales and cost of sales, respectively.

Provision for Future Warranty Costs

The Company provides for the estimated returns under warranty and the costs of fulfilling our obligations under product warranties at the time the related revenue is recognized. The Company estimates the costs based on historical and projected product failure rates, historical and projected repair costs, and knowledge of specific product failures (if any). The specific warranty terms and conditions vary depending upon the country in which we do business, but generally include parts and labor over a period generally ranging from one to two years from the date of product shipment. The Company provides a reserve for expected future warranty returns at the time of product shipment or produces over-builds to cover replacements. We regularly reevaluate our estimates to assess the adequacy of the recorded warranty liabilities and adjust the amounts as necessary each quarter end, based upon historical experience of warranty claims and costs.

Advertising

Advertising costs are expensed as incurred and recorded in "Selling and Marketing" in the Consolidated Statements of Operations. Advertising expense for the years ended December 31, 2021, 2020 and 2019 was \$1,263,897, \$974,461 and \$1,302,120, respectively.

Income Taxes

The Company accounts for income taxes in accordance with FASB ASC Topic 740-10, "Income Taxes." Accordingly, the Company provides deferred income tax assets and liabilities based on the estimated future tax effects of differences between the financial and tax bases of assets and liabilities based on currently enacted tax laws. A valuation allowance is established for deferred tax assets in amounts for which realization is not considered more likely than not to occur.

The Company reports any interest and penalties accrued relating to uncertain income tax positions as a component of the income tax provision.

Net Loss Per Share

Basic earnings per share is computed by dividing the net income (loss) less accrued dividends on any outstanding preferred stock by the weighted average number of common shares outstanding for the period. Diluted earnings per share calculations reflect the assumed exercise of all dilutive employee stock options and warrants applying the treasury stock method promulgated by FASB ASC Topic 260, "Earnings Per Share" and the conversion of any outstanding convertible preferred shares or notes payable that are-in-the-money, applying the as-if-converted method. However, if the assumed exercise of stock options and warrants and the conversion of any preferred shares or convertible notes payable are anti-dilutive, basic and diluted earnings per share are the same for all periods. As a result of the net losses generated in 2021, 2020 and 2019, all outstanding instruments would be antidilutive. As of December 31, 2021, 2020 and 2019, there were 8,606,062, 14,872,703 and 12,858,707 common stock share equivalents, respectively, that were potentially issuable under stock options, conversion of preferred shares (excluding accrued dividends), and stock warrants that could potentially dilute basic earnings per share in the future.

Stock-Based Compensation Expense

The Company accounts for stock-based compensation to employees and directors in accordance with FASB ASC Topic 718 “Compensation - Stock Compensation,” which requires that compensation expense be recognized in the consolidated financial statements for stock-based awards based on the grant date fair value. For stock option awards, the Black-Scholes-Merton option pricing model was used to estimate the fair value of share-based awards under FASB ASC Topic 718. The Black-Scholes-Merton option pricing model incorporates various and highly subjective assumptions, including expected term and share price volatility. The expected term of options granted was estimated to be the average of the vesting term, historical exercise and forfeiture rates, and the contractual life of the option. The share price volatility at the grant date is estimated using historical stock prices based upon the expected term of the options granted. The risk-free interest rate assumption is determined using the rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award being valued.

For common stock awards, the Company uses the fair market value of our common stock on the date of each stock-based award based on the market price of the Company’s common shares and the expense related to these awards is recognized over the requisite service period of the awards on a straight-line or graded vesting basis, which is generally commensurate with the vesting term. Stock-based compensation expense associated with stock awards and stock option grants for the years ended December 31, 2021, 2020 and 2019 was \$4,047,444, \$2,805,842 and \$1,498,357, respectively, excluding awards under the Company’s Long-term Incentive Plan (LTIP). The Company issues new shares upon stock option exercises.

For stock options awarded under the Company’s LTIP, options vest only upon the achievement of certain equity market conditions or performance-based milestones. The fair value of options granted under this program were calculated by using a Monte Carlo simulation for the equity market condition tranches and the Black-Scholes-Merton option pricing method on the performance-based tranches. Stock-based compensation expense associated with the Company’s LTIP for the year ended December 31, 2021 was \$13,255,388 and nil for the years ended December 31, 2020 and 2019.

Leases

The Company determines if an arrangement is a lease at inception. Our lease agreements generally contain lease and non-lease components. Historically, non-lease components such as utilities have been immaterial. Payments under our lease arrangements are primarily fixed. Lease assets and liabilities are recognized at the present value of the future lease payments at the lease commencement date. The interest rate used to determine the present value of the future lease payments is our incremental borrowing rate, because the interest rate implicit in our leases is not readily determinable. Our incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located. Our lease terms include periods under options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

As of December 31, 2021, all of our leases are considered operating leases. Operating lease right-of-use assets and liabilities were included on our Consolidated Balance Sheets beginning January 1, 2019. The Company does not have any finance leases as of December 31, 2021.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (the “FASB”) issued ASU 2016-13, “Financial Instruments - Credit Losses” (Topic 326). ASU 2016-13 provides for a new impairment model which requires measurement and recognition of expected credit losses for most financial assets and certain other instruments, including but not limited to accounts receivable. ASU 2016-13 will become effective for the Company on January 1, 2023 and early adoption is permitted. The Company is currently evaluating the guidance and its impact to the financial statements.

Note 2 – Restatement of Previously Issued 2021 Unaudited Quarterly Financial Statements

During the fourth quarter of 2021 and just before the original 10-K was filed, the Company reviewed its estimate for future expenses related to its Long-Term Incentive Plan for the potential achievement of market capitalization awards, which resulted in increased fair market values on this portion of the new LTIP, first put into place in March 2021. The Company’s Audit Committee concluded, on March 1, 2022, that previously issued unaudited financial statements for all quarterly periods previously filed on Form 10-Q for 2021 should no longer be relied upon. The Audit Committee discussed this matter with the Company’s independent accountant.

As a result, the total fair market value under of the market capitalization awards at that time of grant increased to approximately \$33.6 million from \$12.1 million as of March 31, 2021. This change was a result of management’s determination that the initial fair market value model’s inputs that were utilized were ultimately considered unacceptable according to U.S. GAAP guidance and as a result were revised by management and subsequently updated in its current model for determining the fair market of these market capitalization awards. This error correction was made in the fourth quarter of 2021.

The Company’s previously filed unaudited quarterly financial statements for the first three quarters of 2021 filed under Forms 10-Q were affected by the correction of this error. The quarterly periods ending March 31, 2021, June 30, 2021, and September 2021 were restated in the Company’s Annual Form 10-K.

Impact of the Restatements

The impact of the restatement on the unaudited consolidated balance sheets, statements of changes in stockholders’ equity, statements of operations and statements of cash flows for the 2021 affected quarterly periods is presented below.

The change in the amount of stock-based compensation expenses related to the LTIP resulted in the correction of an error in accumulated deficit and additional paid-in capital. The impact of the restatement to the Consolidated Balance Sheets for the three quarters is as follows:

	March 31, 2021 (Unaudited)		
Balance Sheet	As Previously Reported	Adjustment	As Restated
Additional paid-in capital	\$ 316,208,276	\$ 2,512,007	\$ 318,720,283
Accumulated deficit	\$ (169,334,346)	\$ (2,512,007)	\$ (171,846,353)

	June 30, 2021 (Unaudited)		
Balance Sheet	As Previously Reported	Adjustment	As Restated
Additional paid-in capital	\$ 333,792,844	\$ 2,978,022	\$ 336,770,866
Accumulated deficit	\$ (178,113,803)	\$ (2,978,022)	\$ (181,091,825)

	September 30, 2021 (Unaudited)		
Balance Sheet	As Previously Reported	Adjustment	As Restated
Additional paid-in capital	\$ 337,125,126	\$ 5,519,504	\$ 342,644,630
Accumulated deficit	\$ (186,059,869)	\$ (5,519,504)	\$ (191,579,373)

The Company's statements of stockholders' equity has been restated to reflect the changes to the impacted stockholders' equity accounts described above:

Condensed Statement of Changes in Stockholders' Equity	For the Three Months Ended March 31, 2021 (Unaudited)		
	As Previously		
	Reported	Adjustment	As Restated
Stock-Based Compensation Expense	\$ 2,047,378	\$ 2,512,007	\$ 4,559,385
Additional Paid-In Capital	316,208,276	2,512,007	318,720,283
Net Loss	(6,639,363)	(2,512,007)	(9,151,370)
Accumulated Deficit	\$ (169,334,346)	\$ (2,512,007)	\$ (171,846,353)

Condensed Statement of Changes in Stockholders' Equity	For the Six Months Ended June 30, 2021 (Unaudited)		
	As Previously		
	Reported	Adjustment	As Restated
Stock-Based Compensation Expense	\$ 5,566,124	\$ 2,978,022	\$ 8,544,146
Additional Paid-In Capital	333,792,844	2,978,022	336,770,866
Net Loss	(15,418,820)	(2,978,022)	(18,396,842)
Accumulated Deficit	\$ (178,113,803)	\$ (2,978,022)	\$ (181,091,825)

Condensed Statement of Changes in Stockholders' Equity	For the Nine Months Ended September 30, 2021 (Unaudited)		
	As Previously		
	Reported	Adjustment	As Restated
Stock-Based Compensation Expense	\$ 8,858,814	\$ 5,519,504	\$ 14,378,318
Additional Paid-In Capital	337,125,126	5,519,504	342,644,630
Net Loss	(23,364,886)	(5,519,504)	(28,884,390)
Accumulated Deficit	\$ (186,059,869)	\$ (5,519,504)	\$ (191,579,373)

The impact of the restatement to the previously reported quarterly Consolidated Statements of Operations for each of the quarters ended in 2021 is presented below:

Condensed Statement of Operations	For the Three Months Ended March 31, 2021 (Unaudited)		
	As Previously		
	Reported	Adjustment	As Restated
Total Sales	\$ 3,915,389	\$ —	\$ 3,915,389
Total Cost of Sales	2,835,798	—	2,835,798
Gross Profit (exclusive of depreciation shown separately below)	1,079,591	—	1,079,591
Operating Expenses:			
Research and Development	2,079,927	125,391	2,205,318
Selling and Marketing	1,240,734	62,696	1,303,430
General and Administrative	3,703,837	2,323,920	6,027,757
Depreciation and Amortization	517,412	—	517,412
Loss on Fixed Asset Disposal	83,908	—	83,908
Impairment of Patents and Trademarks	27,731	—	27,731
Total Operating Expenses	7,653,549	2,512,007	10,165,556
Loss From Operations	(6,573,958)	(2,512,007)	(9,085,965)
Total Other Expense	(65,405)	—	(65,405)
Net Loss	\$ (6,639,363)	\$ (2,512,007)	\$ (9,151,370)
Basic and Diluted Loss per Common Share	\$ (0.12)	\$ (0.05)	\$ (0.17)

Condensed Statement of Operations	For the Three Months Ended June 30, 2021 (Unaudited)		
	As Previously Reported	Adjustment	As Restated
Total Sales	\$ 2,916,538	\$ —	\$ 2,916,538
Total Cost of Sales	2,337,166	—	2,337,166
Gross Profit (exclusive of depreciation shown separately below)	579,372	—	579,372
Operating Expenses:			
Research and Development	2,700,732	23,262	2,723,994
Selling and Marketing	1,337,558	11,631	1,349,189
General and Administrative	4,749,920	431,122	5,181,042
Depreciation and Amortization	501,678	—	501,678
Loss on Fixed Asset Disposal	—	—	—
Impairment of Patents and Trademarks	30,765	—	30,765
Total Operating Expenses	9,320,653	466,015	9,786,668
Loss From Operations	(8,741,281)	(466,015)	(9,207,296)
Total Other Expense	(38,176)	—	(38,176)
Net Loss	\$ (8,779,457)	\$ (466,015)	\$ (9,245,472)
Basic and Diluted Loss per Common Share	\$ (0.14)	\$ (0.01)	\$ (0.15)

Condensed Statement of Operations	For the Three Months Ended September 30, 2021 (Unaudited)		
	As Previously Reported	Adjustment	As Restated
Total Sales	\$ 3,018,774	\$ —	\$ 3,018,774
Total Cost of Sales	2,435,437	—	2,435,437
Gross Profit (exclusive of depreciation shown separately below)	583,337	—	583,337
Operating Expenses:			
Research and Development	3,270,255	126,863	3,397,118
Selling and Marketing	1,589,582	63,431	1,653,013
General and Administrative	3,112,059	2,351,188	5,463,247
Depreciation and Amortization	434,277	—	434,277
Loss on Fixed Asset Disposal	—	—	—
Impairment of Patents and Trademarks	7,544	—	7,544
Total Operating Expenses	8,413,717	2,541,482	10,955,199
Loss From Operations	(7,830,380)	(2,541,482)	(10,371,862)
Total Other Expense	(115,686)	—	(115,686)
Net Loss	\$ (7,946,066)	\$ (2,541,482)	\$ (10,487,548)
Basic and Diluted Loss per Common Share	\$ (0.13)	\$ (0.04)	\$ (0.17)

The impact of the restatement to the previously reported quarterly Consolidated Statements of Cash Flows in 2021 is presented below:

Condensed Statement of Cash Flows	For the Three Months Ended March 31, 2021 (Unaudited)		
	As Previously Reported	Adjustment	As Restated
	Net Loss	\$ (6,639,363)	\$ (2,512,007)
Stock-Based Compensation	2,106,206	2,512,007	4,618,213
Net Cash Flows Used in Operating Activities	\$ (5,921,629)	\$ —	\$ (5,921,629)

Condensed Statement of Cash Flows	For the Six Months Ended June 30, 2021 (Unaudited)		
	As Previously Reported	Adjustment	As Restated
	Net Loss	\$ (15,418,820)	\$ (2,978,022)
Stock-Based Compensation	5,683,591	2,978,022	8,661,613
Net Cash Flows Used in Operating Activities	\$ (13,108,703)	\$ —	\$ (13,108,703)

Condensed Statement of Cash Flows	For the Nine Months Ended September 30, 2021 (Unaudited)		
	As Previously Reported	Adjustment	As Restated
	Net Loss	\$ (23,364,886)	\$ (5,519,504)
Stock-Based Compensation	7,311,278	5,519,504	12,830,782
Net Cash Flows Used in Operating Activities	\$ (18,909,428)	\$ —	\$ (18,909,428)

Note 3 – Revenue Recognition and Contracts with Customers

Disaggregated Revenue

The Company's total revenue was comprised of four major product lines: Smart Glasses, OEM Product Sales, Waveguide and Display Engine Sales, and Engineering Services. The following table summarizes the revenue recognized by major product line:

Revenues	For the Years Ended December 31,		
	2021	2020	2019
Smart Glasses Sales	\$ 12,784,600	\$ 10,081,209	\$ 4,893,384
OEM Product Sales	—	—	951,570
Waveguide and Display Engine Sales	—	—	152,499
Engineering Services	380,333	1,500,287	673,151
Total Revenue	\$ 13,164,933	\$ 11,581,496	\$ 6,670,604

Significant Judgments

Under Topic 606 "Revenue from Contracts with Customers", we use judgments that could potentially impact both the timing of our satisfaction of performance obligations and our determination of transaction prices used in determining revenue recognized by major product line. Such judgments include considerations in determining our transaction prices and when our performance obligations are satisfied for our standard product sales that include an end-user 30-day right to return if not satisfied with product and general payment terms that are between Net 30 and 60 days. For our Engineering Services, performance obligations are recognized over time using the input method and the estimated costs to complete each project are considered significant judgments.

Performance Obligations

Revenues from our performance obligations are typically satisfied at a point in time for Smart Glasses, Waveguides and Display Engines, and our OEM Products, which are recognized when the customer obtains control and ownership, which is generally upon shipment. The Company considers shipping and handling activities performed to be fulfillment activities and not a separate performance obligation. The Company also records revenue for performance obligations relating to our Engineering Services over time by using the input method measuring progress toward satisfying the performance obligations. Satisfaction of our performance obligations related to our Engineering Services is measured by the Company's costs incurred as a percentage of total expected costs to project completion as the inputs of actual costs incurred by the Company are directly correlated with progress toward completing the contract. As such, the Company believes that our methodologies for recognizing revenue over time for our Engineering Services correlate directly with the transfer of control of the underlying assets to our customers.

Our standard product sales include a twelve (12) month assurance-type product warranty. In the case of certain of our OEM products and waveguide sales, some include a standard product warranty of up to eighteen (18) months to allow distribution channels to offer the end customer a full twelve (12) months of coverage. We offer extended warranties to customers, which extend the standard product warranty on product sales for an additional twelve (12) month period. All revenue related to extended product warranty sales is deferred and recognized over the extended warranty period. Our Engineering Services contracts vary from contract to contract but typically include payment terms of Net 30 days from date of billing, subject to an agreed upon customer acceptance period.

As of December 31, 2021 and 2020, there was no outstanding performance obligations remaining for extended warranties.

The following table presents a summary of the Company's net sales by revenue recognition method as a percentage of total net sales:

	For the Years Ended December 31,		
	2021	2020	2019
Point-in-Time	97 %	87 %	90 %
Over Time – Input Method	3 %	13 %	10 %
Total	100 %	100 %	100 %

Remaining Performance Obligations

As of December 31, 2021, the Company had no outstanding performance obligations under its engineering services and waveguide development projects, as all projects were completed and delivered in 2021. In addition, the Company had no material outstanding performance obligations related to product sales, other than its standard product warranty.

Note 4 — Inventories, Net

Inventories consisted of the following:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Purchased Parts and Components	\$ 11,580,766	\$ 5,252,709
Work-in-Process	226,126	1,381,677
Finished Goods	1,472,534	3,352,057
Less: Reserve for Obsolescence	<u>(1,127,444)</u>	<u>(3,885,619)</u>
Inventories, Net	<u>\$ 12,151,982</u>	<u>\$ 6,100,824</u>

In addition to its normal Reserve for Obsolescence provision, the Company reserved for (i) an additional twenty-five percent of its remaining M300XL finished goods and related accessory inventory on-hand as of December 31, 2021 and (ii) all of its Blade 1.5 excess components that will not be used in current planned builds of the Blade 1.5 and the new Blade 2.0 in 2022, due to end-of-life availability of some required components. The total reserve write-down recorded at December 31, 2021 was \$519,950. The write-down and obsolescence provision for finished goods and components totaled \$1,273,835 and \$4,572,659 for the years ended December 31, 2020 and 2019, respectively. These provisions were included in Cost of Sales on the Consolidated Statements of Operations.

Note 5 — Fixed Assets, Net

Fixed Assets consisted of the following:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Tooling and Manufacturing Equipment	\$ 6,612,811	\$ 5,494,491
Leaseholds	797,059	773,734
Computers and Purchased Software	980,561	798,881
Furniture and Equipment	2,661,346	2,134,788
	<u>11,051,777</u>	<u>9,201,894</u>
Less: Accumulated Depreciation	<u>(5,861,339)</u>	<u>(6,364,492)</u>
Fixed Assets, Net	<u>\$ 5,190,438</u>	<u>\$ 2,837,402</u>

Total depreciation expense for fixed assets for the years ended December 31, 2021, 2020 and 2019 was \$1,306,479, \$1,904,282 and \$1,913,409, respectively.

Note 6 — Patents and Trademarks, Net

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Patents and Trademarks	\$ 2,854,521	\$ 2,330,720
Less: Accumulated Amortization	<u>(866,151)</u>	<u>(737,671)</u>
Patents and Trademarks, Net	<u>\$ 1,988,370</u>	<u>\$ 1,593,049</u>

Total amortization expense for patents and trademarks for the years ended December 31, 2021, 2020 and 2019 was \$145,072, \$130,656 and \$120,172, respectively. The estimated aggregate annual amortization expense for each of the next five fiscal years is approximately \$190,000. For the years ended December 31, 2021 and 2020, we recorded \$0,163 and \$73,532, respectively, in patent impairment charges and nil in 2019.

Note 7 — Licenses, Net

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Licenses	\$ 1,038,606	\$ 493,717
Additions	1,404,750	544,889
Less: Accumulated Amortization / Expensed	<u>(1,053,420)</u>	<u>(572,475)</u>
	1,389,936	466,131
Less: Current Portion	<u>—</u>	<u>(272,444)</u>
Licenses, Net	<u>\$ 1,389,936</u>	<u>\$ 193,687</u>

The Company acquired two licenses in 2017. The first related to the renegotiation of an existing license at a cost of \$14,967, which resulted in lower royalty rates being paid by the Company over the next 10 years. This license went into effect as of January 1, 2018. The second license was a result of the Company entering into a Technology Purchase and Royalty Agreement where it acquired all the seller's right, title and interest in certain Transferred Intellectual Property (IP). Pursuant to the agreement, the Company paid approximately \$75,702 as reimbursement of related patent application costs incurred by the seller to date, which are included in Patents and Trademarks. The Company also issued 25,000 shares of common stock, valued at \$128,750, upon the original closing in October 2017 and agreed to certain further issuances of 75,000 shares based upon the achievement of certain development milestones as well as per unit royalties once the technology was commercialized for the life of the related patents. In June 2021, the Company assumed or purchased outright the obligations for ongoing royalties under the original license agreement and certain other intellectual property rights in connection with consulting services by the original seller in exchange for the issuance of 75,000 shares with an assigned market value of \$18.73 per share or a total of \$1,404,750. The underlying technology is not yet ready for commercialization, but the Company intends to proceed with further research and development work relating to such underlying technology.

Total amortization expense related to licenses in the years ended December 31, 2021, 2020 and 2019 was \$480,945, \$393,174, and \$122,704, respectively.

Note 8 — Intangible Asset, Net

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Intangible Asset	\$ 1,500,000	\$ 1,500,000
Less: Accumulated Amortization	<u>(1,352,452)</u>	<u>(933,544)</u>
Intangible Asset, Net	<u>\$ 147,548</u>	<u>\$ 566,456</u>

On October 4, 2018, the Company entered into amendment No. 1 to agreements (the “TDG Amendment”) with TDG Acquisition Company, LLC (“TDG”), aka Six15 Technologies, LLC. The TDG Amendment amends certain provisions of prior agreements between Vuzix and TDG, including an asset purchase agreement dated June 15, 2012, and an authorized reseller agreement dated June 15, 2012.

Pursuant to the TDG Amendment, the Company is permitted to engage in sales of heads-up display components or subsystems (and any services to support such sale) for incorporation into a finished good or system for sale to military organizations, subject to certain conditions. The Company is also permitted to sell its products to defense and security organizations that include business customers and governmental entity customers that primarily provide security and defense services, including police, fire fighters, EMTs, other first responders, and homeland and border security. The Company will owe TDG commissions with respect to all such sales until June 15, 2022, when the amendment and original non-compete agreements expire, after which the Company will be permitted to sell any product to any customer world-wide without owing any commission to TDG.

Total commissions expense under this agreement for the years ended December 31, 2021, 2020 and 2019 was \$0,860, \$243,273 and \$116,469, respectively.

Total amortization expense for this intangible asset for the years ended December 31, 2021, 2020 and 2019 was \$418,908, \$423,544 and \$408,000, respectively. Future monthly amortization expense for the next 5 months is approximately \$30,000 per month.

Note 9 – Other Assets

The Company’s other assets consists of the following:

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Private Corporation Investments	\$ 450,000	\$ 250,000
Software Development Costs	750,000	500,000
Less: Accumulated Amortization	<u>(208,334)</u>	<u>(41,667)</u>
Software Development Costs, Net	<u>541,666</u>	<u>458,333</u>
Unamortized Common Stock Expense included in Long-Term Prepaid Expenses	<u>491,923</u>	<u>—</u>
Total Other Assets	<u>\$ 1,483,589</u>	<u>\$ 708,333</u>

In the second quarter of 2018, the Company acquired, for a purchase price of \$250,000, approximately a 1% ownership interest, in the form of preferred stock, in a private corporation in the low vision near eye display market. In the first quarter of 2021, the Company acquired, for a purchase price of \$200,000, approximately a 3% ownership interest, in the form of preferred stock, in a private corporation developing smart glasses software for use by retailers in their stock keeping. These investments were recorded at cost as its fair value is not readily determinable. The Company has reviewed these investments and concluded that there were no indicators of impairment or unrealized gain present as of December 31, 2021.

During 2020, the Company invested \$500,000 in Android operating systems upgrades for its CPU platform used on its M400 and M4000 products. This upgrade was finished and placed into service in the beginning of the fourth quarter of 2020. This capitalized asset will be amortized on a straight-line over its expected product life cycle of 36 months, which began on October 1, 2020. In October 2021, the Company invested \$250,000 for further Android operating systems version upgrades to the CPU platform it uses on its M400 and M4000 products. This development work has not yet been completed and will ultimately be amortized once placed into service which is expected by early 2023.

Total amortization expense for capitalized software development costs for the years ended December 31, 2021, 2020 and 2019 was \$240,395, \$183,328 and \$100,000, respectively, and are included in Cost of Sales – Products in the Consolidated Statements of Operations.

Note 10 — Accrued Expenses

Accrued expenses consisted of the following:

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Accrued Wages and Related Costs	\$ 683,044	\$ 582,924
Accrued Professional Services	551,220	187,323
Accrued Warranty Obligations	185,044	143,898
Other Accrued Expenses	—	68,888
Total	<u>\$ 1,419,308</u>	<u>\$ 983,033</u>

The Company has warranty obligations in connection with the sale of certain of its products. The warranty period for its products is generally twelve (12) months. The costs incurred to provide for these warranty obligations are estimated and recorded as an accrued liability at the time of sale. The Company estimates its future warranty costs based upon product-based historical performance rates and related costs to repair.

The changes in the Company's accrued warranty obligations for the years ended December 31, 2021, 2020 and 2019 were as follows:

Accrued Warranty Obligations at December 31, 2018	\$ 218,047
Reductions for Settling Warranties	(204,583)
Warranty Issued During Year	<u>85,429</u>
Accrued Warranty Obligations at December 31, 2019	98,893
Reductions for Settling Warranties	(193,503)
Warranty Issued During Year	238,508
Accrued Warranty Obligations at December 31, 2020	<u>143,898</u>
Reductions for Settling Warranties	(342,392)
Warranties Issued During Year	<u>383,538</u>
Accrued Warranty Obligations at December 31, 2021	<u>\$ 185,044</u>

Note 11 — Income Taxes

The Company files U.S. federal and various state and foreign tax returns.

Pre-tax earnings consisted of the following for the years ended:

	December 31, 2021	December 31, 2020	December 31, 2019
Pre-Tax Income (Loss)			
U.S.	\$ (39,906,101)	\$ (18,238,773)	\$ (26,482,033)
Outside the U.S.	(471,059)	286,601	5,663
Total Pre-Tax Income (Loss)	<u>\$ (40,377,160)</u>	<u>\$ (17,952,172)</u>	<u>\$ (26,476,370)</u>

The provision expense/(benefit) for income taxes for the years ended December 31, 2021, 2020 and 2019 was as follows:

	2021	2020	2019
U.S. Income Taxes:			
Current Provision	\$ —	\$ —	\$ —
Deferred Provision	(8,924,947)	(3,897,293)	(5,382,746)
Valuation Allowance	8,924,947	3,897,293	5,382,746
Income Taxes Outside the U.S.:			
Current Provision	—	—	—
Deferred Provision	(341,181)	7,916	(511,672)
Valuation Allowance	341,181	(7,916)	511,672
State Income Taxes:			
Current Provision	—	—	—
Deferred Provision	(636,401)	(94,324)	(189,200)
Valuation Allowance	636,401	94,324	189,200
Total Provision	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

A reconciliation of the statutory U.S. federal income tax rate to the effective rates for the years ended December 31, 2021, 2020 and 2019 is as follows:

	2021 %	2020 %	2019 %
Federal Income Tax at Statutory Rate	21.0	21.0	21.0
State Tax Provision, Net of Federal Benefit	1.6	0.3	0.3
Permanent Differences	—	(0.4)	(0.1)
Forgiveness of PPP Loan	—	1.8	—
Federal Tax Credits	0.2	1.1	1.3
Stock Compensation	1.5	(2.1)	(1.9)
Foreign Tax Provision	0.6	0.3	1.9
Expiration of NOL, Credits, Charitable Contribution	(0.7)	0.1	—
Other	0.3	0.1	0.5
Effective Tax Rate	24.5	22.2	23.0
Change in Valuation Allowance	(24.5)	(22.2)	(23.0)
Net Effective Tax Rate	<u>—</u>	<u>—</u>	<u>—</u>

Significant components of the Company's deferred tax assets and liabilities at year end are as follows:

	December 31, 2021	December 31, 2020	December 31, 2019
Deferred Tax Assets:			
Net Operating Loss Carry-forwards	\$ 36,705,377	\$ 29,264,829	\$ 25,678,591
Tax Credit Carry-forwards	3,924,660	3,778,001	3,535,863
Inventory Valuation Adjustment	290,713	847,441	982,160
Stock-Based Compensation	2,989,427	208,803	—
Lease Obligation Liability	240,741	323,186	446,488
Other	425,737	368,243	263,348
Total Deferred Tax Assets	<u>44,576,655</u>	<u>34,790,503</u>	<u>30,906,450</u>
Deferred Tax Liabilities:			
Income from Foreign Operations	—	10,727	—
Lease Right of Use Asset	240,741	323,186	446,488
Other	4,057	27,262	14,335
Total Deferred Tax Liabilities	<u>244,798</u>	<u>361,175</u>	<u>460,823</u>
Net Deferred Tax Assets Before Valuation Allowance	\$ 44,331,857	\$ 34,429,328	\$ 30,445,627
Valuation Allowance	<u>(44,331,857)</u>	<u>(34,429,328)</u>	<u>(30,445,627)</u>
Net Deferred Tax Assets	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

As of December 31, 2021, the Company has approximately \$167.1 million in US federal net operating loss (NOL) carry-forwards and \$2.2 million of Japanese NOL carryforwards. The federal NOL carryforwards generated in tax years prior to 2018 will began to expire in 2022. The federal NOL carryforwards generated in tax years after 2017 have no expiration. The Company has state NOL carryforwards of approximately \$6.8 million available in various jurisdictions in which it files that will begin to expire in 2034. The Company also has approximately \$3.9 million of federal and state credit carry-forwards. The federal and state credit carryforwards began to expire in 2022. Utilization of the NOL and credit carryforwards may be subject to an annual limitation in the case of sufficient equity ownership changes under Section 382 of the tax law or the carryforwards may expire unutilized.

As the result of the assessment of the FASB ASC 740-10 (Prior Authoritative Literature: FASB Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109), the Company has no unrecognized tax benefits.

The Company's U.S. federal and state tax returns for the years 2018 through 2021 remain subject to examination by the respective tax authorities.

FASB ASC 740 (Prior Authoritative Literature: SFAS No. 109, Accounting for Income Taxes), requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on differing treatment of items for financial reporting and income tax reporting purposes. The deferred tax balances are adjusted to reflect tax rates by tax jurisdiction, based on currently enacted tax laws, which will be in effect in the years in which the temporary differences are expected to reverse. In light of the historic losses of the Company, a 100% valuation allowance has been recorded to fully offset any benefit associated with the net deferred tax assets, for which realization is not considered more likely than not to occur.

Note 12 — Capital Stock

Preferred stock

The Board of Directors are authorized to establish and designate different series of preferred stock and to fix and determine their voting powers and other special rights and terms. A total of 5,000,000 shares of preferred stock with a par value of \$0.001 are authorized as of December 31, 2021 and December 31, 2020. Of this total, 49,626 shares are designated

as Series A Preferred Stock. There were nil and 49,626 shares of Series A Preferred Stock issued and outstanding on December 31, 2021 and December 31, 2020, respectively.

On January 28, 2021, Intel Corporation (“Intel”) (which was the holder of all of the outstanding shares of Series A Preferred Stock) converted all of its 49,626 shares of Series A Preferred Stock into 4,962,600 shares of common stock and the shares of Series A Preferred Stock have been retired and cannot be reissued. In connection with the foregoing, Intel and the Company entered into an agreement pursuant to which Intel agreed to accept \$10,000,000 in full payment of all accrued Series A Preferred Stock dividends in the approximate amount of \$10,800,000.

Common Stock

The Company’s authorized common stock consists of 100,000,000 shares, par value of \$0.001 as of December 31, 2021 and December 31, 2020. There were 63,672,268 and 45,645,166 shares of common stock issued and outstanding as of December 31, 2021 and December 31, 2020, respectively.

On March 25, 2021, the Company entered into an underwriting agreement with BTIG, LLC for the sale of the Company’s common stock in an underwritten public offering at a public offering price of \$20.50 per share. The Company closed on this public offering (including the full exercise of the over-allotment option granted to the underwriters), receiving total gross proceeds of \$97,750,007 from the sale of 4,768,293 shares. The Company received net proceeds after the underwriting discount and issuance costs and expenses of \$91,613,587.

Note 13 — Stock Warrants

The following table shows the various changes in warrants for the years ended:

	December 31, 2021	December 31, 2020	December 31, 2019
Warrants Outstanding at December 31, 2020	7,276,928	6,512,516	2,233,062
Exercised During the Period	(7,276,928)	(2,882,647)	—
Issued During the Period	—	3,647,059	5,479,454
Expired During the Period	—	—	(1,200,000)
Warrants Outstanding at December 31, 2021	<u>—</u>	<u>7,276,928</u>	<u>6,512,516</u>

During the year ended December 31, 2021, a total of 7,276,928 warrants were exercised on a cash basis resulting in the issuance of 7,276,928 shares of common stock and proceeds of \$34,715,728. During the year ended December 31, 2020, a total of 2,882,647 warrants were exercised on a cash basis resulting in the issuance of 2,882,647 shares of common stock and proceeds of \$14,128,527. During the year ended December 31, 2019 there were no warrants exercised.

As of December 31, 2021, there were no outstanding warrants remaining.

Note 14 — Stock-Based Compensation

The Company has the following Stock Option Plans (“Plans”) that allow for the granting of both incentive stock options or ISOs, which can result in potentially favorable tax treatment to the participant, and non-statutory stock options. The Company’s 2014 Equity Incentive Plan (the “2014 Plan”) was approved by the stockholders of the Company on June 26, 2014. The Company no longer issues any options under its prior 2009 Plan. The 2014 Plan has an “evergreen provision”, under which the maximum number of shares of common stock that may be issued under the 2014 Plan was approved by the Company’s stockholders to increase the number of shares available for issuance thereunder to 20% of the outstanding shares of common stock. As of December 31, 2021, the authorized shares of common stock under the 2014 Plan, as amended, were 12,734,454.

The exercise price per share subject to an option is determined by the administrator, but in the case of an ISO must not be less than the fair market value of a share of our common stock on the date of grant and in the case of a non-

statutory stock option must not be less than 100% of the fair market value of a share of our common stock on the date of grant.

Under the 2014 Plan, the Company may grant stock options, stock appreciation rights, performance awards of stock and/or cash, and stock awards of restricted stock.

Options issued or outstanding under the Stock Options Plans are as follows:

	2009 Plan	2014 Plan	Total
Outstanding as of December 31, 2019	85,498	1,298,093	1,383,591
Available for future issuance under plan	—	5,329,309	5,329,309
Total authorized by plan	<u>85,498</u>	<u>6,627,402</u>	<u>6,712,900</u>
Outstanding as of December 31, 2020	85,498	2,547,677	2,633,175
Available for future issuance under plan	—	6,583,033	6,583,033
Totals authorized by plan	<u>85,498</u>	<u>9,130,710</u>	<u>9,216,208</u>
Outstanding as of December 31, 2021	—	11,184,450	11,184,450
Available for future issuance under plan	—	1,550,004	1,550,004
Totals authorized by plan	<u>—</u>	<u>12,734,454</u>	<u>12,734,454</u>

The 2014 Plan gives the Board of Directors of the Company the ability to determine vesting periods for all stock incentives granted under the 2014 Plan and allows option terms to be up to ten years from the original grant date. Employees' incentive stock options typically vest at a minimum rate of 25% per year over a four-year period, commencing on the date of grant.

The following table summarizes stock option activity related to the Company's standard employee incentive plan, excluding options awarded under the Long-term Incentive Plan (LTIP), for the years ended December 31, 2021, 2020 and 2019:

	Number of Options	Weighted Average Exercise Price	Average Remaining Life (years)
Outstanding at December 31, 2018	1,546,521	\$ 5.11	7.19
Granted	73,500	2.36	
Exercised	—	—	
Expired or Forfeited	(236,430)	6.21	
Outstanding at December 31, 2019	1,383,591	\$ 4.77	6.25
Granted	1,481,000	1.66	
Exercised	(82,083)	4.67	
Expired or Forfeited	(149,333)	3.68	
Outstanding at December 31, 2020	2,633,175	\$ 3.09	6.53
Granted	1,100,500	17.23	
Exercised	(739,956)	3.36	
Expired or Forfeited	(170,085)	8.58	
Outstanding at December 31, 2021	<u>2,823,634</u>	<u>\$ 7.67</u>	<u>7.95</u>

As of December 31, 2021, there were 1,069,639 options that were fully vested and exercisable at a weighted average exercise price of \$5.70 per share. The weighted average remaining contractual term on the vested options is 6.58 years. The unvested balance of 1,753,995 options as of December 31, 2021 are exercisable at a weighted average exercise price of \$9.62 per share. The weighted average remaining contractual term on the unvested options is 8.8 years.

As of December 31, 2020, there were 1,251,241 options that were fully vested and exercisable at a weighted average exercise price of \$4.17 per share. The weighted average remaining contractual term on the vested options is 4.58 years. The unvested balance of 1,381,934 options as of December 31, 2020 were exercisable at a weighted average exercise price of \$2.16 per share. The weighted average remaining contractual term on the vested options was 9.3 years.

As of December 31, 2019, there were 1,015,019 options that were fully vested and exercisable at a weighted average exercise price of \$4.63 per share. The weighted average remaining contractual term on the vested options is 5.4 years. The unvested balance of 368,572 options as of December 31, 2019 were exercisable at a weighted average exercise price of \$1.17 per share. The weighted average remaining contractual term on the vested options was 8.5 years.

The aggregate intrinsic value of the options exercised during the year ended December 31, 2021, 2020 and 2019 was approximately \$13,697,906, \$869,177 and \$493,500, respectively.

The aggregate intrinsic value of the options outstanding as of December 31, 2021, 2020 and 2019 was approximately \$9,314,887, \$16,444,695 and nil, respectively.

The Black-Scholes-Merton option pricing model was used to estimate the fair value of share-based awards under FASB ASC Topic 718. The Black-Scholes-Merton option pricing model incorporates various and highly subjective assumptions, including expected term and share price volatility.

The expected term of options granted was estimated to be the average of the vesting term, historical exercise and forfeiture rates, and the contractual life of the option. The share price volatility at the grant date is estimated using historical stock prices based upon the expected term of the options granted. The risk-free interest rate assumption is determined using the rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award being valued. We have never paid cash dividends on our common stock and do not anticipate paying cash dividends on our common stock in the foreseeable future. Therefore, the assumed expected dividend yield is zero.

The following summary table shows the assumptions used to compute the fair value of stock options granted, excluding LTIP, during 2021, 2020 and 2019 and their estimated value:

December 31,	2021	2020	2019
Assumptions for Black-Scholes:			
Expected term in years	6.1 to 6.5	6.2 to 6.6	6.2 to 6.3
Expected Volatility	82.8% to 86.0 %	73.3% to 76.8 %	79.4% to 89.4 %
Risk-free interest rate	0.96% to 1.25 %	0.41% to 0.55 %	1.63% to 1.68 %
Expected annual dividends	None	None	None
Value of options granted:			
Number of options granted	1,100,500	1,481,000	73,500
Weighted average fair value per share	\$ 12.40	\$ 1.08	\$ 1.71
Fair value of options granted	\$ 13,642,976	\$ 1,602,267	\$ 125,814

Under FASB ASC Topic 718, “Compensation – Stock Compensation”, the Company has elected to account for forfeitures as they occur.

Unrecognized stock-based compensation expense was \$9,355,603 as of December 31, 2021, relating to a total of 1,753,995 unvested stock options under the Company’s stock option plans. This stock-based compensation expense is expected to be recognized over a weighted average period of approximately 3.2 years.

During the year ended December 31, 2021, the Company issued 68,047 shares of common stock to its independent board members as part of their annual retainer for services covering the period of July 2021 to June 2022 and for the onboarding of the 3 new directors. The fair market value on the date of award of the stock issued was \$16.90, resulting in an aggregate fair value of approximately \$1,150,000. The unamortized portion is included in Prepaid Expenses and Other Assets on our consolidated balance sheet. The fair market value of these awards is expensed over twelve (12) months for 59,170 shares and twenty-four (24) months for 8,877 shares beginning on July 1, 2021.

During the year ended December 31, 2021, the Company awarded 300,000 shares of restricted common stock to the new managing director of its newly established Vuzix Custom Solutions (VCS) business unit, also formerly referred to as Integrated Solutions Business Unit. This equity award was granted pursuant to Nasdaq Listing Rule 5635(c)(4) inducement grant exception as a component of Mr. Spiliotis's employment compensation and was granted as an inducement material to his acceptance of employment with Vuzix. These restricted shares are subject to vesting, including 50,000 shares that may be earned over 3 years based upon continued employment with the Company, and 250,000 shares that are being held in escrow, and which may be earned upon achievement of revenue and EBITDA operational milestones for VCS within specified periods of time over 5 years. Any such milestone shares will be cancelled if not earned within the appropriate milestone time period. The fair market value on the date of award of the restricted stock issued was \$15.58, resulting in an aggregate fair value of approximately \$4,674,000, of which, \$779,000 has been recorded in short-term and long-term Prepaid Expenses and Other Assets associated with the time vesting option, to be amortized over 36 months beginning October 1, 2021. The balance of shares held in escrow related to the performance-based milestones, representing a fair market value of \$3,895,000, is not being amortized until such time as the performance milestones are considered probable to be achieved or have been achieved in accordance with ASC 718.

For the years ended December 31, 2021, 2020 and 2019, the Company recorded total stock-based compensation expense, including stock awards but excluding awards under the Company's LTIP, of \$4,047,444, \$2,805,842, and \$1,498,357, respectively.

Note 15 – Long-term Incentive Plan

On March 17, 2021, the Company granted options to purchase a total of 5,784,000 shares of common stock to its officers and certain other members of its management team. The options were granted under the Company's existing 2014 Incentive Stock Plan. The options have an exercise price of \$19.00, with 375,000 options vesting immediately and the remaining portion vesting upon the achievement of certain equity market capitalization milestones, and revenue and EBITDA operational milestones. For the year ended December 31, 2021, the Company recorded non-cash stock-based compensation expense of \$13,255,388 for options that vested or are probable to vest. There was no stock-based compensation expense related to the Company's LTIP in the year ended December 31, 2020 and 2019.

The fair value of option grants was calculated using a Monte Carlo simulation on the equity market capitalization tranches and the Black-Scholes-Merton option pricing method on the operational milestone tranches. As of December 31, 2021, we had \$28,340,458 of total unrecognized stock-based compensation expense for the portion of options tied to equity market capitalization milestones and the portion of options tied to operational milestones that were considered probable of achievement, all of which will be recognized over a service period of up to 6 years. The probabilities of the milestone achievements are subject to catch-adjustments in each instance where an equity market capitalization milestone is achieved or when an operational milestone becomes probable to be achieved or is achieved. Compensation costs could be reversed in subsequent periods if an awardee leave the Company prior to the expiration of the option life for market capitalization milestone or performance award vesting of a performance award no longer determined to be probable. If such milestones are achieved earlier in their expected service periods, the remaining unrecognized compensation expense related to that particular milestone would be accelerated and recognized in full during the period where that achievement is affirmed by the Board of Directors. As of December 31, 2021, and going forward, should all of the operational milestones which are currently not yet deemed probable of achievement become probable of achievement or are achieved, then the Company could ultimately recognize up to an additional \$34.1 million in non-cash stock-based compensation expense at such time.

The following summary table shows the assumptions used to compute the fair value of the equity market capitalization awards and their estimated value:

December 31, 2021		
Assumptions for Monte Carlo:		
Expected term in years		1.4 to 5.2
Volatility		70.58 %
Risk-free interest rate		0.07 % to 1.28 %
Expected annual dividends		None
Value of options granted:		
Number of options granted		3,079,500
Weighted average fair value per share	\$	10.92
Fair value of options granted	\$	33,623,423

The following summary table shows the assumptions used to compute the fair value of the performance-based awards and their estimated value:

December 31, 2021		
Assumptions for Black-Scholes:		
Expected term in years		6.0 to 10.0
Expected Volatility		84.67 % to 116.39 %
Risk-free interest rate		1.03 % to 1.63 %
Expected annual dividends		None
Value of options granted:		
Number of options granted		2,704,500
Weighted average fair value per share	\$	15.54
Fair value of options granted	\$	42,040,151

The unvested remaining equity market and operational milestones under the LTIP with their total related option grants and criteria achievement weightings of the options available for meeting a target are shown in the following table. Of the total 5,409,000 unvested options outstanding as of December 31, 2021, there are 2,704,500 options unvested for the achievement of Equity Market Capitalization targets, 1,893,150 unvested options for the achievement of annual Revenue targets, and 811,350 unvested options for the achievement of annual EBITDA Margins Before Non-Cash Charges targets.

Award Potential	Criteria Achievement Weighting		
	50% of Options Available	35% of Options Available	15% of Options Available
Options Available (Subject to Vesting)	Equity Market Capitalization Target	LTM Revenue Target	LTM EBITDA Margin before Non-Cash Charges Target
686,000	\$ 2,000,000,000	\$ 25,000,000	0.0%
686,000	3,000,000,000	50,000,000	2.0%
686,000	4,000,000,000	100,000,000	4.0%
686,000	5,000,000,000	200,000,000	6.0%
586,000	6,000,000,000	300,000,000	8.0%
586,000	7,000,000,000	450,000,000	10.0%
561,000	8,000,000,000	675,000,000	12.0%
491,000	9,000,000,000	1,000,000,000	14.0%
441,000	10,000,000,000	1,500,000,000	16.0%
5,409,000			

Note 16 — Right-of-Use Assets and Liabilities

The Company has signed lease agreements, with the largest being for its office and manufacturing facility in the West Henrietta, New York area under an operating lease that commenced October 3, 2015 and was set to expire on

October 3, 2020. This lease has an original five-year term with an option by the Company to renew for two additional three-year terms at pre-agreed to lease rates. On June 25, 2020, the Company exercised the first of two renewal terms, extending our current lease term to January 31, 2024. Operating lease costs under the operating leases totaled \$630,085, \$559,975 and \$572,767 for the years ended December 31, 2021, 2020 and 2019, respectively.

Certain leases provide for increases in future minimum annual rental payments as defined in the lease agreements. The leases generally also include real estate taxes and common area maintenance charges in the annual rental payments. Short-term leases are leases having a term of twelve (12) months or less. The Company recognizes short-term leases on an as incurred basis and does not record a related lease asset or liability for such leases.

As none of our leases provide an implicit interest rate, we use our incremental borrowing rate to determine our discount rate at lease inception based upon the information available at commencement in determining the present value of lease payments. As of December 31, 2021, the weighted average discount rate was 4.5% and the weighted average remaining lease term was 2.1 years.

Future lease payments under operating leases as of December 31, 2021 were as follows:

2022	\$	559,916
2023		546,916
2024		45,576
Total Future Lease Payments		1,152,408
Less: Imputed Interest		(35,386)
Total Lease Liability Balance	\$	<u>1,117,022</u>

Note 17 — Employee Benefit Plans

The Company has a Section 401(k) Savings Plan which covers employees who meet certain age and length of service requirements. Effective July 1, 2018, the Company's Plan was amended to include a 100% match by the Company on all eligible employee salary deferrals. The Company's matching contribution is limited to 3% of covered employee's annual salary. Total 401(k) matching expense for the years ended December 31, 2021, 2020 and 2019 totaled \$280,660, \$148,131 and \$142,414, respectively.

Note 18 — Litigation

We are not currently involved in any actual or pending material legal proceedings or litigation, and we are not aware of any such proceedings contemplated by or against us or our property.

Note 19 — Geographic and Other Financial Information (Unaudited)

Geographic Financial Information (Unaudited)

Geographical revenue information, based on ship-to destination of the customers for the three years ended December 31, 2021, 2020 and 2019 is as follows (in thousands):

By Continent and Region:

	Fiscal Year					
	2021		2020		2019	
	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total
North America	\$ 5,003	38 %	\$ 4,531	40 %	\$ 2,781	42 %
Europe	4,683	36 %	3,290	28 %	2,058	31 %
Asia-Pacific	2,960	22 %	3,383	29 %	1,656	25 %
Others	519	4 %	377	3 %	176	2 %
Total Revenues	<u>\$ 13,165</u>	<u>100 %</u>	<u>\$ 11,581</u>	<u>100 %</u>	<u>\$ 6,671</u>	<u>100 %</u>

By Country:

	Fiscal Year					
	2021		2020		2019	
	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total
US	\$ 4,767	36 %	\$ 4,364	38 %	\$ 2,673	40 %
Japan	2,078	16 %	2,502	22 %	873	13 %
China	205	2 %	68	1 %	972	15 %
Germany	322	2 %	378	3 %	769	12 %
Others	5,793	44 %	4,269	36 %	1,384	20 %
Total Revenues	<u>\$ 13,165</u>	<u>100 %</u>	<u>\$ 11,581</u>	<u>100 %</u>	<u>\$ 6,671</u>	<u>100 %</u>

The Company does not maintain significant amounts of long-lived assets outside of the United States.

Note 20 — Quarterly Financial Information (Unaudited)

The following table summarizes our unaudited quarterly financial information for the periods shown below (in thousands, except per share data):

	Fiscal Year 2021			
	December 31,	September 30,	June 30,	March 31,
Revenue	\$ 3,314	\$ 3,019	\$ 2,917	\$ 3,915
Gross profit	209	583	579	1,080
Net loss	(11,493)	(10,488)	(9,245)	(9,151)
Net loss per share, basic and diluted	(0.17)	(0.17)	(0.15)	(0.17)
Net loss attributable to common stockholders	(11,493)	(10,488)	(9,245)	(9,151)

*Refer to Note 2 concerning the restatements of 2021 quarterly amounts for the three months ended March 31, 2021, June 30, 2021 and September 30, 2021 in previously filed Form 10-Q for those periods.

	Fiscal Year 2020			
	December 31,	September 30,	June 30,	March 31,
Revenue	\$ 4,233	\$ 2,779	\$ 3,037	\$ 1,532
Gross profit	703	348	796	81
Net loss	(3,590)	(4,761)	(4,239)	(5,362)
Net loss per share, basic and diluted	(0.09)	(0.13)	(0.13)	(0.18)
Net loss attributable to common stockholders	(4,120)	(5,281)	(4,746)	(5,861)

	Fiscal Year 2019			
	December 31,	September 30,	June 30,	March 31,
Revenue	\$ 1,953	\$ 1,159	\$ 2,186	\$ 1,373
Gross profit (loss)	(4,369)	(231)	152	40
Net loss	(9,583)	(5,477)	(5,056)	(6,360)
Net loss per share, basic and diluted	(0.31)	(0.18)	(0.20)	(0.25)
Net loss attributable to common stockholders	(10,081)	(5,967)	(5,534)	(6,826)

VUZIX CORPORATION

Schedule II — Valuation and Qualifying Accounts (in thousands)

Description	Balance at Beginning of Period	Charged to Expenses	Deductions	Balance at End of Period
For the Year Ended December 31, 2019				
Allowances deducted from assets				
Doubtful Accounts	\$ 7	\$ (7)(a)	\$ —	\$ —
Inventory	364	4,573	(149)	4,788
Total allowances deducted from assets	<u>\$ 371</u>	<u>\$ 4,566</u>	<u>\$ (149)</u>	<u>\$ 4,788</u>
For the Year Ended December 31, 2020				
Allowances deducted from assets				
Doubtful Accounts	\$ —	\$ —	\$ —	\$ —
Inventory	4,788	1,274	(2,176)(b)	3,886
Total allowances deducted from assets	<u>\$ 4,788</u>	<u>\$ 1,274</u>	<u>\$ (2,176)</u>	<u>\$ 3,886</u>
For the Year Ended December 31, 2021				
Allowances deducted from assets				
Doubtful Accounts	\$ —	\$ —	\$ —	\$ —
Inventory	3,886	520	(3,279)(c)	1,127
Total allowances deducted from assets	<u>\$ 3,886</u>	<u>\$ 520</u>	<u>\$ (3,279)</u>	<u>\$ 1,127</u>

(a) Recovery of amounts previously written off.

(b) Deductions in 2020 primarily related to the disposal of raw components related to the discontinuance of production of our original M300, all of which was fully provisioned for as of December 31, 2019.

(c) Deductions in 2021 primarily related to the disposal of finished goods related to the discontinuance of sales and marketing activities related to our M300 series products, which had been previously provisioned for.

Exhibit Index

3.1(1)	Amended and Restated Certificate of Incorporation
3.2(12)	Amended and Restated Bylaws
3.3(2)	Amendment to Amended and Restated Certificate of Incorporation
3.4(3)	Amendment to Amended and Restated Certificate of Incorporation
3.5(4)	Certificate of Designation of Series A Preferred Stock
4.1 (10)	Description of the Registrant's Securities
10.1(5)**	Form of Indemnification Agreement by and between the registrant and each director and executive officer
10.2(5)**	Employment Agreement dated as of August 1, 2007 by and between the registrant and Paul Travers
10.3(5)**	Employment Agreement dated as of August 1, 2007 by and between the registrant and Grant Russell
10.4(6)	Shared Services Agreement, dated as of June 15, 2012, by and between Vuzix Corporation and TDG Acquisition Company LLC
10.5(6)	Reseller Agreement, dated as June 15, 2012, by and between Vuzix Corporation and TDG Acquisition Company LLC.
10.6(6)	Restrictive Covenants Agreement, dated as June 15, 2012, by and between Paul Travers and TDG Acquisition Company LLC
10.7(7)	2014 Equity Incentive Plan
10.9 (11) †	Amendment No. 1 to agreements with TDG Acquisition Company, LLC
14.1(8)	Code of Ethics
21.1(9)	Subsidiaries
23.1*	Consent of Freed Maxick, CPAs, P.C.
31.1*	Certification of CEO as required by Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2*	Certification of CFO as required by Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32.1***	Section 1350 CEO Certification
32.2***	Section 1350 CFO Certification
101*	The following materials, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements, tagged as blocks of text
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

† Confidential treatment granted as to certain portion

* Filed herewith.

** Indicates management contract or compensatory arrangement.

*** Furnished herewith.

- (1) Filed as an exhibit to Amendment No. 3 to the Registration Statement on Form S-1 filed October 16, 2009 and incorporated herein by reference.
- (2) Filed as an exhibit to the Current Report on Form 8-K filed February 7, 2013 and incorporated herein by reference.
- (3) Filed as an exhibit to the Current Report on Form 8-K filed June 30, 2014 and incorporated herein by reference.
- (4) Filed as an exhibit to the Current Report on Form 8-K filed January 2, 2015 and incorporated herein by reference.
- (5) Filed as an exhibit to the S-1 filed July 2, 2009 and incorporated herein by reference.
- (6) Filed as an exhibit to the Current Report on Form 8-K filed June 21, 2012 and incorporated herein by reference.
- (7) Filed with Definitive Proxy Statement on April 30, 2014 and incorporated herein by reference.
- (8) Filed as exhibit to 10-K filed March 30, 2016 and incorporated herein by reference.

- (9) Filed as exhibit to S-1 filed December 21, 2012 and incorporated herein by reference.
- (10) Filed as exhibit to Form 10-K filed March 16, 2020 and incorporated herein by reference.
- (11) Filed as exhibit to Form 8-K filed October 10, 2018 and incorporated herein by reference.
- (12) Filed as exhibit to Form 8-K filed April 30, 2021 and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 25th day of October, 2022.

VUZIX CORPORATION

/s/ Paul Travers

Paul Travers

Chief Executive Officer

POWER OF ATTORNEY

KNOW BY ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints jointly and severally, Paul Travers and Grant Russell, and each one of them, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

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

Signature	Title	Date
<u>/s/ Paul Travers</u> Paul Travers	President, Chief Executive Officer and Director <i>(Principal Executive Officer)</i>	October 25, 2022
<u>/s/ Grant Russell</u> Grant Russell	Chief Financial Officer, Executive Vice-President and Director <i>(Principal Financial and Accounting Officer)</i>	October 25, 2022
<u>/s/ Edward Kay</u> Edward Kay	Director	October 25, 2022
<u>/s/ Timothy Harned</u> Timothy Harned	Director	October 25, 2022
<u>/s/ Azita Arvani</u> Azita Arvani	Director	October 25, 2022
<u>/s/ Emily Nagle Green</u> Emily Nagle Green	Director	October 25, 2022
<u>/s/ Raj Rajgopal</u> Raj Rajgopal	Director	October 25, 2022

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-252673, 333-231932, 333-209304, and 333-202045) and on Form S-8 (No. 333-252959) of our report dated March 2, 2022, relating to the consolidated financial statements and effectiveness of internal control over financial reporting of Vuzix Corporation appearing in this Amendment No. 1 to the Annual Report on Form 10-K/A for the year ended December 31, 2021.

Our report dated March 2, 2022 on the effectiveness of internal control over financial reporting as of December 31, 2021, expressed an opinion that Vuzix Corporation had not maintained effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

/s/ Freed Maxick CPAs, P.C.

Buffalo, New York
October 25, 2022

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Paul Travers, certify that:

1. I have reviewed this Form 10-K/A (Amendment No.1) of Vuzix Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Paul Travers

Paul Travers
Chief Executive Officer

Date: October 25, 2022

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Grant Russell, certify that:

1. I have reviewed this Form 10-K/A (Amendment No.1) of Vuzix Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Grant Russell

Grant Russell
Chief Financial Officer

Date: October 25, 2022

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Vuzix Corporation (“Vuzix”) on Form 10-K/A (Amendment No.1) for the fiscal year ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Paul Travers, Chief Executive Officer of Vuzix, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Vuzix.

/s/ Paul Travers

Paul Travers
Chief Executive Officer

Date: October 25, 2022

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Vuzix Corporation (“Vuzix”) on Form 10-K/A (Amendment No.1) for the fiscal year ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Grant Russell, Chief Financial Officer of Vuzix, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Vuzix.

/s/ Grant Russell

Grant Russell
Chief Financial Officer

Date: October 25, 2022
