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As filed with the Securities and Exchange Commission on October 16, 2009
Registration No. 333-160417

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 3
to
Form S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

VUZIX CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	3577	04-3392453
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

75 Town Centre Drive
Rochester, NY 14623
(585) 359-5900
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Copies to:

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. ☑

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. ☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☑

Title of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(6)
Units, each consisting of one share of Common Stock, $0.001 par value, and one-half of one Common Stock Purchase Warrant(2)	$15,464,625.00	$ 862.93
Shares of Common Stock included as part of the Units		
Common Stock Purchase Warrants included as part of the Units		
Shares of Common Stock underlying the Common Stock Purchase Warrant included in the Units	$11,598,469.00(3)(5)	$ 647.19
Agent Compensation Options(4)		
Shares of Common Stock included as part of the Agent Compensation Options	$ 1,933,079.00	$ 107.87
Common Stock Purchase Warrants included as part of the Compensation Options(5)		
Shares of Common Stock underlying the Common Stock Purchase Warrants included in the Compensation Options	$ 1,449,808.00(3)(5)	$ 80.90
Total	$30,445,981.00	$ 1698.89

(1) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(o) under the Securities Act of 1933, as amended. In accordance with Rule 457(o) under the Securities Act, the number of shares being registered and the maximum offering price per share are not included in this table.

(2) Public offering of units, each unit consisting of one share of common stock, $0.001 par value, and one-half of one common stock purchase warrant.

(3) Estimated pursuant to Rule 457(g).

(4) Options entitling the Canadian agents to purchase that number of shares of common stock and warrants equal to 12.5% of the aggregate number of shares of common stock and warrants sold under the offering, respectively, at the offering price per share and warrant, respectively, for a period of 12 months from the closing date.

(5) Pursuant to Rule 416, there are also being registered such indeterminable additional securities as may be issued as a result of any additional shares of common stock that shall become issuable by reason of any stock dividend, stock split, recapitalization or other similar transaction effected without the receipt of consideration that results in an increase in the number of the outstanding shares of common stock.

(6) Registration fee previously paid in connection with the initial filing of this Registration Statement.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

EXPLANATORY NOTES

This Registration Statement contains a prospectus relating to an offering of shares of our common stock, warrants and common stock acquirable upon exercise of warrants in the United States, together with separate prospectus pages relating to an offering of shares of our common stock, warrants and common stock acquirable upon exercise of warrants in Canada. The U.S. prospectus and the Canadian prospectus will be identical in all material respects. The complete U.S. prospectus is included herein and is followed by those pages to be used solely in the Canadian prospectus. Each of the alternate pages for the Canadian prospectus included in this registration statement has been labeled “Alternate Page for Canadian Prospectus.”

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

(Subject to Completion) Dated October 16, 2009

PRELIMINARY PROSPECTUS

Vuzix Corporation

Minimum Offering of Cdn$6,000,000
Up to 50,000,000 Units

(each consisting of one share of common stock and one half of one common stock purchase warrant)

This is the initial public offering of our securities. We are offering for sale up to 50,000,000 units at a price between Cdn$0.15 and Cdn$0.25 per unit, on a best efforts basis. This offering is subject to us raising minimum gross proceeds of Cdn$6,000,000. Each unit consists of one share of our common stock, par value US$0.001 per share, and one-half of one common stock purchase warrant. Each whole warrant entitles its holder to purchase one share of our common stock at a price of 150% of the initial public offering price per unit at any time for 36 months after the closing of this offering, subject to acceleration based upon the market price of our common stock. Our units are being concurrently offered to the public in Canada by our Canadian agents under the terms of a prospectus filed with Canadian securities regulatory authorities. Our agents are not purchasing any of the offered units. The agents must sell the number of units that will result in us receiving the minimum gross proceeds (Cdn$6,000,000) if any are sold. The agents are required to use their best efforts to sell the maximum number of units offered (50,000,000 units). The shares of common stock and warrants underlying the units will be issued separately. Pursuant to an escrow agreement among us, the agents and an escrow agent, the funds received in payment for the units sold in this offering will be deposited into a non-interest bearing escrow account and held until the closing of the offering. The offering will close as soon as practicable after the minimum gross proceeds have been raised. At the closing, certificates representing the shares of common stock and the common stock purchase warrants will be delivered to one of our Canadian agents in its nominee name for deposit with CDS Clearing and Depository Services Inc. and the proceeds from the offering will be delivered to us. No funds shall be released to us until such a time as the minimum gross proceeds are raised. If the minimum gross proceeds are not raised within 90 days of the date of this prospectus, all funds will be returned to investors promptly without interest or deduction of fees. **There is currently no public market through which our securities may be sold, and you may not be able to resell any securities you purchase under this prospectus.** We have applied to list our common stock and the warrants included in the units on the TSX Venture Exchange (TSX-V) under the symbols "●" and "●", respectively. Listing of our common stock and warrants will be subject to fulfilling all of the requirements of the TSX-V.

Our business and an investment in our securities involve significant risks. These risks are described under the caption "Risk Factors" beginning on page 8 of this prospectus.

Neither the SEC nor any other securities commission or regulatory authority has approved or disapproved of these securities or has passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

If we raise the minimum proceeds from this offering (Cdn$6.0 million) by selling 30,000,000 units at Cdn$0.20 per unit (the midpoint of our estimated initial public offering price range), we estimate that the net proceeds to us from the offering, after agents commissions, would be approximately Cdn$5.52 million or Cdn$0.184 per unit. If we sell the maximum number of units we are offering (50,000,000 units) at Cdn$0.25 per unit (the maximum of our estimated initial public offering price range), we would receive gross proceeds of Cdn$12.5 million and estimate that the net proceeds to us, after agents commissions, would be approximately Cdn$11.5 million or Cdn$0.23 per unit.

The offering is denominated in Canadian dollars. The purchase price for the offered units may be paid by US investors in Canadian or US dollars. If any purchaser indicates that his or her payment will be made in US dollars, the payment will be converted to Canadian dollars at the real-time, wholesale rate at which our Canadian agents are able to purchase US dollars in the foreign exchange market on the date on which securities offered under this prospectus are allocated to that purchaser.

The agents expect to deliver the shares of common stock and warrants comprising the units in Toronto, Ontario, Canada on or about , 2009.

CANACCORD ADAMS INC.

The date of this prospectus is , 2009.

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Through and including , 2009 (the 40th day after the date of this prospectus), all dealers effecting transactions in units or shares of our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter with respect to an unsold allotment or subscription.

PROSPECTUS SUMMARY

This summary provides an overview of selected information contained elsewhere in this prospectus and does not contain all of the information you should consider before investing in our securities. You should carefully read the prospectus and the registration statement of which this prospectus is a part in their entirety before investing in our securities, including the information discussed under "Risk Factors" beginning on page 7 and our financial statements and notes thereto that appear elsewhere in this prospectus.

BUSINESS

Company Overview

We are engaged in the design, manufacture, marketing and sale of devices that are worn like eyeglasses and feature built-in video screens that enable the user to view video and digital content, such as movies, computer data, the Internet or video games. Our products (known commercially as Video Eyewear, but also commonly referred to as virtual displays, wearable displays, personal viewers, personal displays, head mounted displays, or near-to-eye displays) are used to view high-resolution video and digital information primarily from mobile devices (such as cell phones, portable media players, gaming systems and laptop computers) and from personal computers. Our products provide the user with a virtual viewing experience that simulates viewing a large screen television or desktop computer monitor practically anywhere, anytime.

Our Video Eyewear products feature high performance miniature display modules, low power electronics and related optical systems. We produce both monocular and binocular Video Eyewear devices that we believe are excellent solutions for many mobile computer, mobile internet devices (MID) or video viewing requirements, including general entertainment applications. We focus on two markets: the consumer markets for gaming, mobile video viewing and stereoscopic three-dimensional video viewing; and rugged mobile displays for defense and industrial applications. We also offer low-vision assist Video Eyewear products that are designed to assist and improve the remaining vision of people suffering from macular degeneration.

The development of intellectual property rights relating to our technologies is a key aspect of our business strategy. We have generated and continue to generate intellectual property as a result of our ongoing performance of development contracts and our internal research and development activities. We have also acquired technologies developed by third parties and we may do so in the future.

Our business is subject to numerous risks, as discussed more fully in the section entitled "Risk Factors" immediately following this prospectus summary. The risks we face include the following:

- We have incurred net losses since our inception and if we continue to incur net losses in the foreseeable future the market price of our common stock may decline.
- We have depended on defense related engineering contracts and product orders from two customers for the majority of our sales and our revenues would be materially reduced if we are unable to obtain sales from government contracts or if either of our two significant customers reduce or delay orders from us.
- If management continues to own a significant percentage of our outstanding common stock, management may prevent other stockholders from influencing significant corporate decisions.
- We do not manufacture our own microdisplays, one of the key components of our Video Eyewear products, and we may not be able to obtain the microdisplays we need.
- If we fail to develop new products and adapt to new technologies, our business and results of operations may be materially adversely affected.
- If microdisplay-based personal displays do not gain some reasonable level of acceptance in the market for mobile displays, our business strategy may fail.
- We may incur substantial costs or lose important rights as a result of litigation or other proceedings relating to our products, patents and other intellectual property rights.

- Purchasers of our units will experience immediate and substantial dilution as a result because their common stock will be worth less on a net tangible book value basis than the amount they invested.

Industry Overview

Many mobile devices now allow the user to view high-resolution full color content. We believe that typical displays currently used on mobile devices do not work well for this purpose because they are either too small, making it extremely difficult to view the detail in their display images with a human eye, or too large, making the mobile device cumbersome and difficult to use and carry. Some mobile devices employ a touch screen with software to magnify or zoom in on a partial image. We believe that many consumers consider this solution unsatisfactory because it is difficult to navigate and find information on the portion of the page being viewed.

In contrast, our Video Eyewear products enable the user to effectively view the entire screen on a small, eyeglass-like device. Our products employ microdisplays that provide full screen resolution but are smaller than one-inch diagonally, with some as small as one-quarter of an inch. To make images on the microdisplays viewable, our Video Eyewear products incorporate proprietary magnifying optics that are usually designed by us. The result is a detailed virtual image that appears to the viewer to be similar to the image on a full size computer screen from a normal desktop working distance or the image on a large flat panel television from normal home TV viewing distance. For example, when magnified through our optics, a high-resolution 0.44-inch diagonal microdisplay can provide a viewing experience comparable to that on a 62-inch diagonal television screen viewed at nine feet. We refer to this as a 62-inch virtual display.

We believe that there is growing demand for mobile access to high-resolution content in both the consumer and industrial and defense markets.

Our Products

We offer products that use our proprietary technology and are designed to meet the unique requirements of the consumer, industrial and defense markets.

Binocular Video Eyewear Products

Each binocular Video Eyewear product contains two microdisplay screens, one in front of each eye, mounted in a frame attached to eyeglass-style temples with headphones. These products enable mobile private viewing of video content on virtual displays that can simulate theater-sized screens. They are currently sold on the basis of resolution and their effective virtual viewing screen size. Our products today range from 320 × 240 pixels (Quarter Video Graphics Array or QVGA) to 800 × 600 pixels (Super Video Graphics Array or SVGA) resolution and provide virtual screen sizes of 44- to 62-inch screens viewed at nine feet. We also offer an interactive version for PC gaming which includes our proprietary head tracking technology, which enables the user to look around the environment being displayed in the game by simply moving his or her head, and a microphone to enable communication with others. Finally, we offer a binocular Video Eyewear product that integrates a high-resolution camera with digital magnification, designed to assist and improve the remaining vision of persons suffering from macular degeneration.

Monocular Video Eyewear Products

Our Tac-Eye® monocular (single eye) Video Eyewear products are designed to clip on to a pair of ballistic sunglasses, a head set or conventional safety goggles. They can be used with rugged laptops, security and night vision cameras and thermal night vision sights, including those sights for which we currently build the display drive electronics as a sub-contractor to the US Department of Defense. Tac-Eye® enables users to have wearable, private, hands-free and glanceable access to high-resolution content or information while retaining most of their real world view.

Defense Sub-Assembly and Custom Solutions

We are involved in several programs as part of contracting teams that produce thermal night vision sights to the US Department of Defense. We design and manufacture many of the display drive electronic subassemblies for light, medium, and heavy weight thermal weapon sighting systems for the US and other defense forces. When possible, we obtain a first right of refusal to be the volume manufacturer of our proprietary display subassemblies as part of our contracting process for the custom design of products.

Our Strategy

Our strategy is to establish and maintain a leadership position as a worldwide supplier of Video Eyewear and other virtual display technology solutions. We intend to offer our technologies across major markets, platforms and applications. We will strive to be an innovator in designing virtual display devices that enable new mobile video viewing as well as general entertainment applications.

To maintain and enhance our position as a leading provider of virtual display solutions, we intend to:

- improve our brand name recognition;
- develop products for large markets;
- broaden and develop strategic relationships and partnerships;
- expand market awareness for virtual display solutions;
- maintain and exploit any cost advantage our technology can provide us;
- extend our proprietary technology leadership; and
- establish multiple revenue sources.

Company Information

We were incorporated under the Delaware General Corporation Law in 1997 as VR Acquisition Corp. In 1997 we changed our name to Kaotech Corporation. In 1998 we changed our name to Interactive Imaging Systems, Inc. In 2004 we changed our name to Vicuity Corporation and then to Icuiti Corporation. In September 2007 we changed our name to Vuzix Corporation.

Our principal executive offices are located at 75 Town Centre Drive, Rochester, New York 14623. Our telephone number is (585) 359-5900. We maintain an Internet website at *www.vuzix.com*. The information contained on, connected to or that can be accessed via our website is not part of this prospectus. We have included our website address in this prospectus as an inactive textual reference only and not as an active hyperlink.

Our wholly-owned direct subsidiary is Vuzix (Europe) Limited, which we refer to in this prospectus as Vuzix Europe. Vuzix Europe was incorporated on April 10, 2008 pursuant to the provisions of the Companies Act (England and Wales). The registered and head office of Vuzix Europe is located at St. John's House, 5 South Parade, Summertown, Oxford OX2 7JL.

The Offering

Securities offered by Vuzix	Up to 50,000,000 units; each unit consisting of one share of our common stock, par value $0.001 per share, and one half of one common stock purchase warrant.
	Up to 84,375,000 shares of our common stock.(1)
	Up to 25,000,000 common stock purchase warrants. Each whole warrant will entitles its holder to purchase one share of our common stock at a price of 150% of the initial public offering price per unit at any time for 36 months after the closing of this offering. If the weighted-average closing price of our common stock on the TSX-V exceeds 250% of the initial public offering price per unit for 20 consecutive trading days at any time beginning 180 days after the date on which our common stock is first traded on the TSX-V, we will have the right, exercisable at our sole discretion, to accelerate the

	expiration date of the warrants by providing written notice to each registered warrant holder within five business days and issuing a press release to the effect that the warrants will expire at 5:00 p.m. (Toronto time) on the date specified in the notice and press release, provided that the accelerated expiration date may not be less than 30 days following the date of the notice and press release.
Minimum gross proceeds	Cdn$6,000,000
Common stock to be outstanding after this offering	Between 275,105,285 shares (assuming minimum gross proceeds of Cdn$6,000,000 at the initial public offering price of Cdn$0.15 per unit) and 285,305,285 shares (assuming the sale of the maximum number of units offered (50,000,000 units).(2)
Agent Compensation	As consideration for their services, the Canadian agents will receive: (i) a commission equal to 8% of the gross proceeds of the offering; (ii) options entitling the Canadian agents to purchase that number of shares of our common stock and warrants equal to 12.5% of the aggregate number of shares of our common stock and warrants sold under the offering, at the offering price per share and warrant, for a period of 12 months from the closing date; and (iii) a non-refundable due diligence fee of Cdn$15,000. The Canadian agents will also be reimbursed for their reasonable fees and expenses including the reasonable legal fees and disbursements of legal counsel to the agents. Canaccord Adams Inc. and any US selling agents that the Canadian agents may appoint will be paid cash selling commissions not to exceed 6% of the gross proceeds of the offering in the United States and options entitling the US selling agents to purchase that number of shares of our common stock and warrants sold in the United States under the offering equal to 8% of the aggregate number of shares of our common stock and warrants at the initial public offering price for a period of 12 months from the closing date. The commission paid to US selling agents will be paid by the Canadian agents from their commissions and the options issued to the US selling agents will be assigned by the Canadian agents from their options. This prospectus covers the sale of the shares of our common stock and warrants issuable upon exercise of the agents' options. In consideration of certain fiscal advisory services rendered by the Canadian agents to us pursuant to a fiscal advisory fee agreement between us and the Canadian agents, we have agreed to issue to the Canadian agents at the closing of this offering, in payment of a fiscal advisory fee, that number of shares of our common stock equal to, depending on the gross proceeds of the offering, between 1.0% and 2.0% of our common stock issued and outstanding immediately upon the closing of the offering. The issuance of these shares to the Canadian agents is not covered by this prospectus. These shares will be subject to resale restrictions under applicable United States and Canadian securities legislation and a contractual lock-up agreement for one year. See "Underwriting — Fiscal Advisory Fee Agreement."
Use of proceeds	The minimum gross proceeds to us from the offering will be Cdn$6,000,000 and we estimate that the net proceeds to us from such amount, after payment of agents' commissions and offering-related expenses, would be approximately Cdn$5,000,000. Assuming the sale of the maximum number of units offered (50,000,000 units) and an initial public offering price of Cdn$0.25 per unit (the maximum of our estimated initial public offering price range), we would receive gross proceeds of Cdn$12,500,000 and we estimate that the net proceeds to us from such amount, after payment of agents' commissions and offering-related expenses, would be approximately

	Cdn$10,978,000. We expect to use $1,181,000 of the net proceeds of this offering to repay outstanding indebtedness, including accrued interest. The indebtedness to be repaid includes $165,500 in principal amount plus interest payable to our President and Chief Executive Officer. We intend to use the remainder of the net proceeds from this offering new product development and tooling expenses; for research and development expenses; capital expenditures; selling, marketing, general and administrative expenses; possible acquisitions of businesses, technologies or other assets; and general corporate purposes. For additional information see "Use of Proceeds."
Risk Factors	See "Risk Factors" beginning on page 8 and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our securities.

(1) Consists of up to (i) 50,000,000 shares included in the units; (ii) 25,000,000 shares issuable upon exercise of the common stock purchase warrants included in the units; and (iii) up to 6,250,000 shares issuable upon exercise of the options issued to the agents as compensation and up to an additional 3,125,000 shares issuable upon exercise of common stock purchase warrants issuable upon exercise of the options issued to the agents as compensation.

(2) Includes (i) up to 5,592,246 shares issued to the agents in payment of a fiscal advisory fee; (ii) up to 7,148,982 shares issuable upon conversion of 168,500 outstanding shares of our Series C 6% Convertible Preferred Stock (Series C Preferred Stock), together with all accrued and unpaid dividends thereon through September 30, 2009, at the rate of $0.2917 per share; and (iii) up to 4,642,189 shares issuable upon conversion of $575,000 in aggregate principal amount of convertible promissory notes outstanding, together with all accrued and unpaid interest thereon through September 30, 2009. Does not include (i) up to 15,304,554 shares issuable upon exercise of options granted under our 2007 Amended and Restated Stock Option Plan; (ii) any of the shares described in footnote (1) above other than those described in clause (i) of footnote (1); (iii) up to 1,200,00 shares issuable upon exercise of options under our 2009 option plan that we intend to grant to our four new non-employee directors at the closing of this offering; and (iv) up to 3,542,107 shares issuable upon exercise of outstanding warrants.

Selected Summary Financial Data

The following tables present our summary financial data and should be read together with our financial statements and accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus. The summary financial data for the years ended December 31, 2008, 2007 and 2006 are derived from our audited annual financial statements, which are included elsewhere in this prospectus. The unaudited summary financial data as of June 30, 2009 and for the three and six months ended June 30, 2009 and 2008 have been derived from our unaudited interim financial statements, which are included elsewhere in this prospectus, and include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of our financial position and results of operations for these periods.

	Three Months Ended June 30,		Six Months Ended June 30,	
Statement of Operations Data	**2009**	**2008**	**2009**	**2008**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Sales	$ 2,063,733	$ 3,087,338	$ 5,082,087	$ 4,807,982
Cost of Sales	1,390,819	1,871,661	3,221,861	3,358,739
Gross Margin	672,914	1,215,677	1,860,226	1,449,243
Operating Expenses				
Research and development	428,737	1,224,265	945,897	1,960,982
Selling and marketing	520,257	483,695	976,041	933,257
General and administrative	534,142	438,831	990,729	972,630
Depreciation and amortization	167,509	123,696	306,343	247,392
Total operating expenses	1,650,645	2,270,487	3,219,010	4,114,261
Profit (Loss) from operations	(977,731)	(1,054,810)	(1,358,784)	(2,665,018)
Interest and other income (expense)	11	—	59	166
Foreign exchange (loss) gain	(3,657)	(300)	(4,969)	(33)
Interest expense	(56,711)	(57,353)	(122,095)	(99,019)
Tax (expense) benefit	(888)	(2,897)	(1,776)	(3,650)
Total tax and other income (expense)	(61,245)	(60,550)	(128,781)	(102,536)
Net (Loss)	$ (1,038,976)	$ (1,115,360)	$ (1,487,565)	$ (2,767,554)
Income (loss) per share:				
Basic and fully diluted*	$ (0.0048)	$ (0.0057)	$ (0.0070)	$ (0.0141)
Weighted average common shares outstanding:				
Basic and fully diluted*	220,268,927	200,424,027	219,935,594	200,015,546

Statement of Operations Data	Year Ended December 31, 2008	2007	2006
Sales	$ 12,489,884	$ 10,146,379	$ 9,538,308
Cost of Sales	8,788,905	6,783,473	5,767,550
Gross Margin	3,700,979	3,362,906	3,770,758
Operating Expenses			
Research and development	3,366,518	2,365,412	1,279,239
Selling and marketing	2,128,625	1,920,164	1,191,800
General and administrative	2,299,685	1,718,627	1,560,278
Depreciation and amortization	510,133	374,078	276,989
Total operating expenses	8,304,961	6,378,281	4,308,306
Profit (Loss) from operations	(4,603,982)	(3,015,375)	(537,548)
Interest and other income (expense)	188	2,549	313
Foreign exchange (loss) gain	(24,216)	—	—
Interest expense	(260,977)	(241,692)	(179,019)
Legal settlement	—	96,632	—
Tax (expense) benefit	(5,212)	98,372	(3,700)
Total tax and other income (expense)	(290,217)	(44,139)	(182,406)
Net (Loss)	$ (4,894,199)	$ (3,059,514)	$ (719,954)
Income (loss) per share:			
Basic and fully diluted*	$ (0.0240)	$ (0.0176)	$ (0.0047)
Weighted average common shares outstanding:			
Basic and fully diluted*	207,710,498	185,263,660	173,254,715

* All outstanding warrants, options, and convertible debt are anti-dilutive, therefore basic and diluted earnings per share are the same for all periods.

Cash Flow Data	Year Ended December 31, 2008	2007	2006	Six Months Ended June 30, 2009 (Unaudited)	2008 (Unaudited)
Cash flows provided by (used in) operating activities	$(1,285,449)	$(3,295,900)	$ 120,053	$ (476,637)	$ (107,925)
Cash flows (used in) investing activities	(549,804)	(316,743)	(479,236)	(148,777)	(259,193)
Cash flows provided by financing activities	2,289,116	3,408,328	874,569	91,820	106,255

Balance Sheet Data	As of December 31, 2008	2007	2006	As of June 30, 2009 (Unaudited)	2008 (Unaudited)
Cash and cash equivalents	$ 818,719	$ 364,856	$ 569,171	$ 285,126	$ 103,993
Working Capital (deficiency)	(1,846,289)	966,658	69,766	(2,808,676)	(2,150,731)
Total Assets	6,221,897	6,967,254	5,013,263	4,351,101	5,939,483
Long-Term Liabilities	1,754,379	2,014,476	1,980,476	1,797,680	1,606,559
Accumulated (deficit)	(14,687,276)	(9,691,977)	(6,531,363)	(16,225,391)	(12,510,081)
Total Stockholders' equity (deficit)	(2,089,942)	423,236	(603,954)	(3,253,196)	(2,274,435)

RISK FACTORS

An investment in our securities involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this prospectus, before making an investment decision. If any of the following risks actually occurs, our business, financial condition or results of operations could suffer. In that case, the market value of our securities could decline, and you may lose all or part of your investment.

RISKS RELATED TO OUR BUSINESS

Because we have a limited operating history in the Video Eyewear industry, there is a limited amount of past experience upon which to evaluate our business and prospects.

We were formed in 1997 to develop and sell virtual reality and other personal display technology and products. Since our inception the majority of our sales have been derived from the sale of night vision display drive electronics and from research and development contracts with suppliers to the US government and others. In 2003, we discontinued our original virtual reality product line to focus on Video Eyewear products. Since that time, the market for Video Eyewear products has developed more slowly than we anticipated. Although we sold our first monocular Video Eyewear products in 2003 and our first binocular Video Eyewear products in February 2005, since 2003 we have continued to earn the majority of our revenues from defense related engineering contracts. Accordingly, there is a limited amount of Video Eyewear-related experience upon which to evaluate our business and prospects, and a potential investor should consider the challenges, expenses, delays and other difficulties involved in the development of our business, including the continued development of our technology and the achievement of market acceptance for products using our technology.

We have incurred net losses since our inception and if we continue to incur net losses in the foreseeable future the market price of our common stock may decline.

We incurred annual net losses of $4,894,199 in 2008, $3,059,514 in 2007 and $719,954 in 2006 and net losses of $1,487,565 and $2,767,554 for the six-month periods ended June 30, 2009 and 2008, respectively. We had an accumulated deficit of $16,225,391 as of June 30, 2009.

We may not achieve or maintain profitability in the future. In particular, we expect that our expenses relating to sales and marketing and product development and support, as well as our general and administrative costs, will increase, requiring us to increase sales in order to achieve and maintain profitability. If we do not achieve and maintain profitability, our financial condition will be materially and adversely affected. We would eventually be unable to continue our operations unless we were able 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 have depended on defense related engineering contracts and two customers for sales and our revenues would be materially reduced if we are unable to continue to obtain sales from government contracts or if either of our two significant customers reduce or delay orders from us.

Since inception, the majority of our sales have been derived from the sale of night vision display drive electronics to two suppliers to the US government. Sales of night vision display drive electronics to these customers amounted to 20%, 17% and 42% of our sales in 2008, 2007 and 2006, respectively, and 44% and 16% for the six-month periods ended June 30, 2009 and 2008, respectively. We have no long-term contracts with these customers. A significant reduction or delay in orders from either of our significant customers would materially reduce our revenue and cash flow and adversely affect our ability to achieve or maintain profitability in the future.

The next largest source of revenues has been sales directly to the US Department of Defense, primarily for engineering programs. Such sales amounted to 12%, 54% and 27% of our sales in 2008, 2007 and 2006, respectively, and 6% and 2% for the six-month periods ended June 30, 2009 and 2008, respectively. We have no long-term contracts with the US government for engineering services. We plan to submit proposals for additional

development contract funding. However, development contract funding is subject to legislative authorization and, even if funds are appropriated, such funds may be withdrawn based on changes in government priorities.

Together, these two groups of customers accounted for 32%, 71% and 69% of our sales in 2008, 2007 and 2006, respectively, and for 50% and 18% of our sales in the six-month periods ended June 30, 2009 and 2008. We may not be successful in obtaining new government contracts or in receiving further night vision display electronics orders. Our inability to obtain sales from government contracts could have a material adverse effect on our results of operations and would likely cause us to delay or slow our growth plans, resulting in lower net sales and adversely affect our liquidity and profitability.

Because our US government defense contracts and subcontracts are subject to procurement laws and regulations, we may not receive all of the revenues we anticipate receiving under those contracts and subcontracts.

Generally, US government contracts are subject to procurement laws and regulations. Some of the our contracts are governed by the Federal Acquisition Regulation (FAR), which lays out uniform policies and procedures for acquiring goods and services by the US government, and agency-specific acquisition regulations that implement or supplement the FAR. For example, the Department of Defense implements the FAR through the Defense Federal Acquisition Regulations (DFAR).

The FAR also contains guidelines and regulations for managing a contract after award, including conditions under which contracts may be terminated, in whole or in part, at the government's convenience or for default. If a contract is terminated for the convenience of the government, a contractor is entitled to receive payments for its allowable costs and, in general, the proportionate share of fees or earnings for the work done. If a contract is terminated for default, the government generally pays for only the work it has accepted. These regulations also subject us to financial audits and other reviews by the government of our costs, performance, accounting and general business practices relating to our government contracts, which may result in adjustment of our contract-related costs and fees.

Our US government contract and subcontract orders are funded by government budgets that are proposed by the President of the United States and reviewed and approved by the Congress. Funds allocated to government agencies are administered by the Executive Office of the President. There are two primary risks associated with this process. First, the process may be delayed or disrupted because of congressional schedules, negotiations over funding levels for programs or unforeseen national or world events. Second, funding for multi-year contracts can be changed in future appropriations. Either of these events could affect the allocation, timing, schedule and program content of our government contracts and subcontracts.

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

All of our significant consumer division customers issue purchase orders solely in their own discretion, often only two to four weeks 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 customers may decide not to purchase products from us for any reason. Any of our current customers may stop purchasing our products in the future. If those customers do not continue to purchase our products, our sales volume and profitability could decline rapidly with little or no warning whatsoever.

We cannot rely on long-term purchase orders or commitments to protect us from the negative financial effects of a decline in demand for our products. The limited certainty of product orders can make it difficult for us to forecast our sales and allocate our resources in a manner consistent with our actual sales. Moreover, our expense levels 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. Furthermore, because we depend on a small number of customers for the vast majority of our sales, the ramifications of these risks is greater than if we had a greater number of customers. As a result of our lack of long-term purchase orders and purchase commitments, we may experience a rapid decline in our sales and profitability.

If either of the two customers on whom we depend fails to pay us amounts owed in a timely manner, we could suffer a significant decline in cash flow and liquidity which, in turn, could cause us to fail to pay our liabilities and purchase adequate inventory to sustain or expand our sales volume.

Our accounts receivable represented approximately 30%, 53% and 53% of our total current assets as of December 31, 2008, 2007 and 2006, respectively, and 20% and 11% as of June 30, 2009 and 2008, respectively. As of June 30, 2009, our two major customers represented 17% of our total accounts receivable. As a result of the substantial amount and concentration of our accounts receivable, if any of our major customers fails to pay us amounts owed in a timely manner, we could suffer a significant decline in cash flow and liquidity which could adversely affect our ability to pay our liabilities and to purchase inventory to sustain or expand our current sales volume and adversely affect our ability to continue our business.

In addition, our business is characterized by long periods for collection from our customers and short periods for payment to our suppliers, the combination of which may cause us to have liquidity problems. We experience an average accounts settlement period ranging from one month to as high as three months from the time we deliver our products to the time we receive payment from our customers. In contrast, we typically need to place certain deposits and advances with our suppliers on a portion of the purchase price. Because our payment cycle is considerably shorter than our receivable collection cycle, we may experience working capital shortages. Working capital management, including prompt and diligent billing and collection, is an important factor in our results of operations and liquidity. System problems, industry trends, our customers' liquidity problems or payment practices or other issues may extend our collection period, which would adversely impact our liquidity, our ability to pay our liabilities and to purchase inventory to sustain or expand our current sales volume, and adversely affect our ability to continue our business.

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

Since inception, the majority of our sales have been derived from the sale of night vision display electronics and from research and development contracts with suppliers to, or directly to the US government and other customers. Our long-term business plan contemplates that we will transition our business so that the majority of our sales are earned from consumer products sales. In connection with this transition, we are engaged in a variety of marketing initiatives intended to promote sales of our consumer products. Our future growth and profitability from our consumer products will depend in large part upon the effectiveness and efficiency of these marketing efforts, including our ability to:

- create awareness of our brand and products, including general awareness of this new Video Eyewear product category;
- identify the most effective and efficient levels of spending for marketing expenditures in our new target market;
- effectively manage marketing costs (including creative and media) in order to maintain acceptable operating margins and return on marketing investment;
- select the right markets in which to market; and
- convert consumer awareness into actual product purchases.

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.

The current decline and any future decline in general economic conditions could lead to reduced consumer demand for our products and otherwise have an adverse effect on our liquidity and profitability.

We believe that purchases of our consumer Video Eyewear products are dependent upon levels of discretionary spending by our customers. This means that our financial performance will be sensitive to changes in overall

economic conditions that affect consumer spending. Consumer spending habits are affected by, among other things, prevailing economic conditions, levels of employment, salaries and wage rates, consumer confidence and consumer perception of economic conditions. As widely reported, general worldwide economic conditions have experienced a downturn due to, among other things, slower economic activity, concerns about inflation, decreased consumer confidence, reduced corporate profits and capital spending, and adverse business conditions. This can impact us through reduced sales, elongated selling cycles, delays in product implementation and increased competitive margin pressure. We are unable to accurately predict the likely duration and severity of the current disruption in financial markets and adverse economic conditions in the United States and other countries. The continuation of this downturn, the further deterioration of economic conditions in the United States or key international economies or uncertainty as to the economic outlook could reduce discretionary spending or cause a shift in consumer discretionary spending to other products. Any of these factors would likely cause us to delay or slow our growth plans, result in lower net sales and adversely affect our liquidity and profitability. Similarly, the tightening of credit markets may adversely affect our supplier base and increase the potential for one or more of our suppliers to experience financial distress or bankruptcy, which could materially and adversely affect our business.

If we fail to accurately forecast seasonal demand for our consumer Video Eyewear products, our results of operations for the entire fiscal year may be materially adversely affected.

Historically, a high percentage of our consumer Video Eyewear product annual sales have been attributable to the winter holiday selling season. Like many manufacturers of consumer electronics products, we must make merchandising and inventory decisions for the winter holiday selling season well in advance of actual sales. Further compounding this forecasting are other fluctuations in demand for the consumer electronics products that work with our Video Eyewear products, often due to the same seasonal influences, as well as technological advances and new models which are often introduced later in the calendar year. Inaccurate projections of demand or deviations in the demand for our products may cause large fluctuations in both our fourth quarter results and could have a material adverse effect on our results of operations for the entire fiscal year. We expect that our fourth quarter sales of consumer products will remain dependent on our performance during the winter holiday selling season.

Our Video Eyewear products require ongoing research and development and we may experience technical problems or delays and may not have the funds necessary to continue their development 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 delayed, and we could incur significant additional expenses and our business may fail.

We anticipate that we will require additional funds and further US government engineering services contracts to maintain our current levels of expenditure for research and development of new products and technologies, and to obtain and maintain patents and other intellectual property rights in these technologies, the timing and amount of which are difficult to forecast. Our cash on hand after the successful completion of this offering coupled with the possibility of further negative cash flow from operations may not be sufficient to meet all of our future needs. We have no commitment for additional funds. Any funds we need may not be available on commercially reasonable terms or at all. If we cannot obtain any necessary additional capital when needed, we might be forced to reduce our research and development efforts which would materially and adversely affect our business. If we attempt to raise capital in an offering of shares of our common stock, preferred stock, convertible securities or warrants, or if we engage in acquisitions involving the issuance of such securities, our then-existing stockholders' interests will be diluted.

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

We rely on and will continue to rely on technologies (including microdisplays) 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.

If we fail to develop new products and adapt to new technologies, our business and results of operations may be materially adversely affected.

The market for our products is characterized by rapid changes in products, designs and manufacturing process technologies. Our success depends to a large extent on our ability to develop and manufacture new products and technologies to match the varying requirements of different customers and groups in order to establish a competitive position and become profitable. Furthermore, we must adapt our products and processes to technological changes and emerging industry standards and practices on a cost-effective and timely basis. Our failure to accomplish any of the above could harm our business and operating results.

Consumer electronics products are subject to rapid technological changes. Companies within the consumer electronics industry are continuously developing new products with increased performance and functionality. This puts pricing pressure on existing products and constantly threatens to make them, or causes them to be, obsolete. During the last two fiscal years, we sold one product below cost after introducing new product models and as a result incurred a negative gross margin of approximately 20% or approximately $28,000 in negative margin. As our unit sales increase, our ability to manage and mitigate future clearance discounting activities may be harder and greater sales with negative margins could increase. Our typical product life cycle is relatively short, generating lower average selling prices as the cycle matures. With cost reductions in component design and increased manufacturing volumes we have not faced significant margin erosion as we introduce new models of our Video Eyewear products. If we fail to accurately anticipate the introduction of new technologies, we may possess significant amounts of obsolete inventory that can only be sold at substantially lower prices and gross margins than we anticipated. In addition, if we fail to accurately anticipate the introduction of new technologies, we may be unable to compete effectively due to our failure to offer products most demanded by the marketplace. If any of these failures occur, our sales, profit margins and profitability will be adversely affected.

If microdisplay-based personal displays do not gain some reasonable level of acceptance in the market for mobile displays, our business strategy may fail.

The mobile display market is dominated by displays larger than one-inch, based on direct view liquid crystal display (LCD) and organic light emitting display (OLED) technology. A number of companies have made and continue to make substantial investments in, and are conducting research to improve characteristics of, small direct view LCDs. Many of the leading manufacturers of these larger direct view LCDs, including LG Electronics, Royal Philips Electronics, Samsung Electronics Co., Ltd., Sony Corporation and Sharp Corporation, are large, established companies with global marketing capabilities, widespread brand recognition and extensive financial resources. Advances in LCD and OLED technology or other technologies may overcome their current limitations and permit them to remain or become more attractive technologies for personal viewing applications, which could limit the potential market for our Video Eyewear 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 microdisplay-based Video Eyewear products or their market acceptance. Market acceptance of Video Eyewear technology will depend, in part, upon consumer acceptance of near-to-eye displays and upon microdisplay technology providing benefits comparable to or greater than those provided by alternative direct view display technology at a competitive price. If consumers fail to accept near-to-eye displays in the numbers we anticipate or as soon as we anticipate, the sales of our Video Eyewear products and our results of operations would be adversely affected and our business strategy may fail.

There are a number of competing providers of microdisplay-based personal display technology and we may fail to capture a substantial portion of the personal display market.

In addition to competing with direct view displays, we also compete with microdisplay-based personal display technologies that have been developed by other companies. Our primary personal display competitors include DaeYang Co., Ltd., Ilixco Inc., MyVu Corporation (MyVu), Carl Zeiss, Inc. (Zeiss), 5DT Inc., eMagin Corporation (eMagin), Kopin Corporation (Kopin), Lumus Ltd. (Lumus) and Kaiser Electro Optics Inc. (Kaiser). Additionally, at recent technology exhibitions Sony and Brother International Corporation have demonstrated personal display glasses that look like sunglasses. Most of our microdisplay-based competitors have greater financial, marketing, distribution and technical resources than we do. Certain of these competing microdisplay-based technologies entered the marketplace prior to us. Moreover, our competitors may succeed in developing new microdisplay-based personal display technologies that are more affordable or have more or more desirable features than our technology. If our products are unable to capture a substantial portion of the personal display market, our business strategy may fail.

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.

Our products must comply with certain requirements of the US Federal Communications Commission (FCC) regulating electromagnetic radiation in order to be sold in the US and with comparable requirements of the regulatory authorities of the European Union (EU) and other jurisdictions in order to be sold in those jurisdictions. We are also subject to various governmental regulations related to toxic, volatile, and other hazardous chemicals used in connection with parts of our manufacturing process, including the Restriction of Certain Hazardous Substances Directive (RoHS) issued by the EU effective July 1, 2006. This directive restricts the distribution of products within the EU that exceed very low maximum concentration values of certain substances, including lead.

We believe that all our current consumer products comply with the regulations of the jurisdictions in which they are sold. Our failure to comply with these regulations in the future could result in the imposition of fines or in the suspension or cessation of our operations in the applicable jurisdictions. Additional regulations applicable to our business may be enacted in the United States or other jurisdictions in the future. 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.

Our products will likely experience rapidly 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 expect to compete, prices of established products tend to decline significantly over time. In order to maintain our 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 production 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.

If we cannot obtain and maintain appropriate patent and other intellectual property rights protection for our technology, our business will suffer.

The value of our personal display and related technologies is dependent on our ability to secure and maintain appropriate patent and other intellectual property rights protection. We intend to continue to aggressively pursue additional patent protection for our new products and technology. Although we own many patents covering our technology that have already been issued, we may not be able to obtain additional patents that we apply for, or that any of these patents, once issued, will give us commercially significant protection for our technology, or will be found valid if challenged. Moreover, we have not obtained patent protection for some of our technology in all foreign countries in which our products might be manufactured or sold. In any event, the patent laws and

enforcement regimes of other countries may differ from those of the United States as to the patentability of our personal display and related technologies and the degree of protection afforded.

Any patent or trademark owned by us may be challenged and invalidated or circumvented. Patents may not issue from any of our pending or future patent applications. Any claims and issued patents or pending patent applications may not be broad or strong enough and may not be issued in all countries where our products can be sold or our technologies can be licensed to provide meaningful protection against any commercial damage to us. Further, others may develop technologies that are similar or superior to our technologies, duplicate our technologies or design around the patents owned by us. Effective intellectual property protection may be unavailable or limited in certain foreign countries. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise use aspects of our processes and devices that we regard as proprietary. Policing unauthorized use of our proprietary information and technology is difficult and our efforts to do so may not prevent misappropriation of our technologies. In the event that our intellectual property protection is insufficient to protect our intellectual property rights, we could face increased competition in the market for our products and technologies, which could have a material adverse effect on our business, financial condition and results of operations.

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. In addition, we may have to participate in interference or reexamination proceedings before the US Patent and Trademark Office, or in opposition, nullification or other proceedings before foreign patent offices, with respect to our patents or patent applications. All of these actions would place our patents and other intellectual property rights at risk and may result in substantial costs to us as well as a diversion of management attention. Moreover, if successful, 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.

In addition, 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. To protect our trade secrets, know-how and other proprietary information, we require employees, consultants, financial advisors and strategic partners to enter into confidentiality agreements. These agreements may not provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of those trade secrets, know-how or other proprietary information. In particular, we may not be able to fully or adequately protect our proprietary information as we conduct discussions with potential strategic partners. If we are unable to protect the proprietary nature of our technology, it will harm our business.

Despite our efforts to protect our intellectual property rights, intellectual property laws afford us only limited protection. A third party could copy or otherwise obtain information from us without authorization. Accordingly, we may not be able to prevent misappropriation of our intellectual property or to deter others from developing similar products or services. Further, monitoring the unauthorized use of our intellectual property is difficult. Litigation may be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Litigation of this type could result in substantial costs and diversion of resources, may result in counterclaims or other claims against us and could significantly harm our results of operations. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as do the laws of the United States.

As is commonplace in technology companies, we employ individuals who were previously employed at other technology companies. To the extent our employees are involved in research areas that are similar to those areas in which they were involved at their former employers, we may be subject to claims that such employees or we have, inadvertently or otherwise, used or disclosed the alleged trade secrets or other proprietary information of the former employers. Litigation may be necessary to defend against such claims. Litigation of this type could result in substantial costs to us and divert our resources.

We also depend on trade secret protection through confidentiality and license agreements with our employees, subsidiaries, licensees, licensors and others. We may not have agreements containing adequate protective provisions in every case, and the contractual provisions that are in place may not provide us with adequate protection in all circumstances. The unauthorized reproduction or other misappropriation of our intellectual property could diminish the value of our brand, competitive advantages or goodwill and result in decreased sales.

We may incur substantial costs or lose important rights as a result of litigation or other proceedings relating to our products, patents and other intellectual property rights.

In recent years, there has been significant litigation involving patents and other intellectual property rights in many technology-related industries. Until recently, patent applications were retained in secrecy by the US Patent and Trademark Office until and unless a patent was issued. As a result, there may be US patent applications pending of which we are unaware that may be infringed by the use of our technology or a part thereof, thus substantially interfering with the future conduct of our business. In addition, there may be issued patents in the United States or other countries that are pertinent to our business of which we are not aware. We and our customers could be sued by other parties for patent infringement in the future. Such lawsuits could subject us and them to liability for damages or require us to obtain additional licenses that could increase the cost of our products, which might have an adverse affect on our sales.

In addition, in the future we may assert our intellectual property rights by instituting legal proceedings against others. We may not be able to successfully enforce our patents in any lawsuits we may commence. Defendants in any litigation we may commence to enforce our patents may attempt to establish that our patents are invalid or are unenforceable. Any patent litigation could lead to a determination that one or more of our patents are invalid or unenforceable. If a third party succeeds in invalidating one or more of our patents, that party and others could compete more effectively against us. Our ability to derive sales from products or technologies covered by these patents could be adversely affected.

Whether we are defending the assertion of third party intellectual property rights against our business as a result of the use of our technology, or we are asserting our own intellectual property rights against others, such litigation can be complex, costly, protracted and highly disruptive to our business operations by diverting the attention and energies of management and key technical personnel. As a result, the pendency or adverse outcome of any intellectual property litigation to which we are subject could disrupt business operations, require the incurrence of substantial costs and subject us to significant liabilities, each of which could severely harm our business.

Plaintiffs in intellectual property cases often seek injunctive relief. Any intellectual property litigation commenced against us could force us to take actions that could be harmful to our business and thus to our sales, including the following:

- discontinuing selling the products that incorporate or otherwise use technology that contains our allegedly infringing intellectual property;
- attempting to obtain a license to the relevant third party intellectual property, which may not be available on reasonable terms or at all; or
- attempting to redesign our products to remove our allegedly infringing intellectual property.

If we are forced to take any of the foregoing actions, we may be unable to manufacture and sell products that incorporate our technology at a profit or at all. Furthermore, the measure of damages in intellectual property litigation can be complex, and is often subjective or uncertain. If we were to be found liable for infringement of proprietary rights of a third party, the amount of damages we might have to pay could be substantial and is difficult to predict. Decreased sales of our products incorporating our technology would adversely affect our sales. Any necessity to procure rights to the third party technology might cause us to negotiate the royalty terms of the third party license which could increase our cost of production or, in certain cases, terminate our ability to build some of our products entirely.

If we fail to renew, register or otherwise protect our trademarks, the value of our brand names may decline and we may be unable to use those names in certain geographical areas.

We believe our copyrights and trademarks are critical to our success. We rely on trademark, copyright and other intellectual property laws to protect our proprietary rights. If we fail to properly register and otherwise protect our trademarks, service marks and copyrights, we may lose our rights, or our exclusive rights, to them. In that case, our ability to effectively market and sell our products and services could suffer, which could harm our business.

Our business and results of operations may suffer if there are, or if users claim there are, negative effects on eyesight from the long-term use of our products.

The personal display products that we currently market or may introduce and market in the future are new and utilize new technology. While virtual display technology has been in use over the past 25 years, sales to the general public have been limited. Extensive and continual viewing of any display, including standard computer monitors, for hours each day has the potential to negatively affect eyesight. Accordingly, it is possible that prolonged use of our products may adversely affect a user's eyesight. We design our products with these considerations in mind to attempt to minimize any potential negative impact. We warn users that extensive daily use without appropriate rest periods may cause eye fatigue that could result in temporary or permanent damage (in much the same way that a computer monitor manufacturers now warn users about long-term computer use). Despite our efforts, we may be unable to overcome this risk and such risk could result in claims against us by users of our products. Any such claims, whether or not we are ultimately held liable for them, could diminish the value of our brand, competitive advantages or goodwill and may result in decreased sales and we could incur significant expense in defending against any such claims. In addition, if we are ultimately held liable for any such claims, the resulting liabilities may have a material adverse effect on our business, financial condition and results of operations.

Product liability claims, whether or not we are ultimately held liable for them, could have a material adverse affect on our business and results of operations.

Our business may expose us to product liability claims. Although no such claims have been brought against us to date, and to our knowledge no such claim is threatened or likely, we may face liability to product users for damages resulting from the design or manufacture of our products. Any such claims, whether or not we are ultimately held liable for them, could diminish the value of our brand, competitive advantages or goodwill and result in decreased sales and we could incur significant expense in defending against any such claims. While we plan to obtain and maintain product liability insurance coverage, product liability claims made against us may exceed coverage limits or fall outside the scope of such coverage. Also, insurance may not be available at commercially reasonable rates or at all. We do not have any such product liability insurance in effect.

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 US 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 US dollars for the purpose of calculating any sales or costs to us. Our sales may decrease as a result of any appreciation of the US dollar against these other currencies. The proceeds of this offering will be denominated in Canadian dollars and any substantial appreciation of the US dollar against the Canadian dollar during this offering may materially adversely affect our liquidity and capital resources.

The majority of our current expenditures are incurred in US dollars and many of our components come from countries that currently peg their currency against the US dollar. If the US dollar depreciates versus these foreign currencies, additional US 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. We can not assure you 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, we are subject to international operational, financial, legal and political risks.

A substantial part of our operations are expected to be 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 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 taxes, tariffs, quotas, export controls, export licenses, import controls and other trade barriers;
- economic instability 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 instability in the countries in which our suppliers operate, particularly in China and Taiwan;
- difficulties in collecting accounts receivable and longer accounts receivable payment cycles; and
- potentially adverse tax consequences.

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

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. This is especially an issue while our staff is small. We are dependent upon the active participation of several key management personnel, including Paul J. Travers, our President and Chief Executive Officer (CEO). We do not carry key person life insurance on any of our senior management or other key personnel other than our CEO. While we have some life insurance coverage on our CEO, we do not believe it would be sufficient to completely protect us against losses we may suffer if his services were to become unavailable to us in the future. Our Chief Financial Officer, Grant Russell, a Canadian citizen, currently has his principal residence in Vancouver, Canada and a second residence in Rochester, New York. If he becomes unable to legally travel to and work in the United States, his ability to perform some of his duties could be materially adversely affected.

We must hire highly skilled technical personnel as employees and as independent contractors in order to develop our products. As of the date of this prospectus we have 52 full-time employees. The competition for highly skilled technical, managerial and other personnel is intense and we may not be able to retain or recruit such personnel. Our recruiting and retention success is substantially dependent on 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 offered to employees in order to attract and retain such personnel. 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 we need to be successful, our business, operating results and financial condition could be materially adversely affected.

Our failure to effectively manage growth could harm our business.

We have rapidly and significantly expanded the number and types of products we sell, and we will endeavor to further expand our product portfolio. We must regularly introduce new products and technologies, enhance existing products, and effectively stimulate customer demand for new products and upgraded versions of our existing products.

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

- *New Product Launch:* With the growth of our product portfolio, we 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 effective marketing to stimulate demand and market acceptance. If we are unable to scale and improve our product launch coordination, we could frustrate our customers and lose retail shelf space and product sales;
- *Forecasting, Planning and Supply Chain Logistics:* With the growth of our product portfolio, we also 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 and logistics management, we could frustrate our customers, lose product sales or accumulate excess inventory; and
- *Support Processes:* To manage the growth of our operations, we will need to continue to improve our transaction processing, operational and financial systems, and procedures and controls to effectively manage the increased complexity. If we are unable to scale and improve these areas, the consequences could include: delays in shipment of product, degradation in levels of customer support, lost sales, decreased cash flows, and increased inventory. These difficulties could harm or limit our ability to expand.

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 vast majority of our business from three locations in the Rochester, New York area. We also rely on third party manufacturing plants in China and third party logistics, sales and marketing facilities in other parts of the world to provide key components of our Video Eyewear products and services necessary for our operations. If major disasters such as earthquakes, 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 generally do not have long-term contracts with our customers and therefore we may not be able to accurately forecast inventory requirements and sales.

Our business is operated on the basis of short-term purchase orders and engineering contracts that typically do not exceed 12 months in duration. We cannot guarantee that we will be able to obtain long-term contracts in the future. The purchase orders that we receive can often be cancelled or revised without penalty. In the absence of a backlog of orders that can only be canceled with penalty, we plan production on the basis of internally generated forecasts of demand, which makes it difficult to accurately forecast inventory requirements and sales. Large supply line commitments and large inventories of various components will be required to support our business and provide reasonable order fulfillment for customers. If we fail to accurately forecast operating requirements, our business may suffer and the value of your investment in us may decline.

Terrorism and the uncertainty of future terrorist attacks or war could reduce consumer confidence which could adversely affect our operating results.

Terrorist acts or acts of war may cause damage or disruption to our facilities, information systems, vendors, employees and customers, which could significantly harm our sales and results of operations. In the future, fears of war or additional acts of terrorism may have a negative effect on consumer confidence or consumer discretionary spending patterns, as well as have an adverse effect on the economy in general. This impact may be particularly

harmful to our business because we expect to rely heavily on discretionary consumer spending and consumer confidence levels.

RISKS RELATED TO MANUFACTURING

We do not manufacture our own microdisplays, one of the key components of our Video Eyewear products, and we may not be able to obtain the microdisplays we need.

We do not currently own or operate any manufacturing facilities for microdisplays, one of the key components in our Video Eyewear products. We currently purchase almost all of the microdisplays used in our products from Kopin and eMagin. Kopin accounts for approximately 95% of our microdisplays by unit volume. We estimate that products incorporating Kopin microdisplays will account for approximately 56% of our sales in 2009 and products incorporating eMagin microdisplays will account for approximately 19% of our sales in 2009. Our relationships with both Kopin and eMagin generally are on a purchase order basis and neither supplier has a contractual obligation to provide adequate supply or acceptable pricing on a long-term basis. Both Kopin and eMagin could discontinue sourcing merchandise for us at any time. If Kopin or eMagin were to discontinue their relationships 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 Kopin or eMagin 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 redesign our products. Any such event could disrupt our operations and have an adverse effect on our business, financial condition and results of operations.

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.

Our inability to obtain sufficient quantities of high quality components or services on a timely basis could result in future manufacturing delays, increased costs and ultimately in reduced or delayed sales or lost orders which could materially and adversely affect our operating results.

The consumer electronics industry is subject to significant fluctuations in the availability of components. If we do not properly anticipate the need for critical components, we may be unable to meet the demands of our customers and end-users.

The availability of certain of the components that we require to produce our Video Eyewear products may decrease. As the availability of components decreases, the cost of acquiring those components ordinarily increases. High growth product categories 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.

Unanticipated disruptions in our operations or slowdowns by our suppliers, distributors and shipping companies could adversely affect our ability to deliver our products and service our customers.

Our ability to provide high quality customer service, process and fulfill orders and manage inventory depends on the efficient, timely and uninterrupted performance of our manufacturing and distribution facilities and our management information systems and the facilities and systems of our third party suppliers, distributors and shipping companies.

Any material disruption or slowdown in the operation of our manufacturing and distribution facilities or our management information systems, or comparable disruptions or slowdowns suffered by our principal suppliers, distributors or shippers could cause delays in our ability to receive, process and fulfill customer orders and may cause orders to be canceled, lost or delivered late, goods to be returned or receipt of goods to be refused. If any of these events occur, our sales and operating results could be materially and adversely affected.

If we acquire any companies or technologies in the future, they could prove difficult to integrate, disrupt our business, dilute stockholder value or have an adverse effect on our results of operations.

We intend to expand our business primarily through internal growth, but from time to time we may consider strategic acquisitions. Any future acquisition would involve numerous risks including:

- potential disruption of our ongoing business and distraction of management;
- difficulty integrating the operations and products of the acquired business;
- unanticipated expenses related to technology integration;
- exposure to unknown liabilities, including litigation against the companies we may acquire;
- additional costs due to differences in culture, geographic locations and duplication of key talent; and
- potential loss of key employees or customers of the acquired company.

Additionally, to finance an acquisition we may incur substantial amounts of indebtedness, which would affect our balance sheet and results of operations, or we may issue a substantial number of shares of our common stock, which may be dilutive to our stockholders. If we make acquisitions in the future, acquisition-related accounting charges may affect our balance sheet and results of operations. We may not be successful in addressing these risks or any other problems encountered in connection with any acquisitions.

RISKS RELATING TO THIS OFFERING

There is currently no trading market for our securities and if an established trading market does not develop holders of our common stock and warrants may not be able to resell their securities at or near the offering price or at any price.

Our securities are not currently listed or quoted on any national securities exchange or national quotation system. We have applied to list our common stock issuable upon exercise of the warrants included in the units offered under this prospectus on the TSX-V under the symbol "●." Listing of our common stock will be subject to fulfilling all of the requirements of the TSX-V. We have also applied for listing of the warrants included in the units on the TSX-V under the symbol "●." Listing of our warrants included in the units will be subject to fulfilling all of the requirements of the TSX-V, including distribution of the warrants to a minimum number of public security holders. Neither the TSX-V nor any other exchange or quotation system, may not permit our common stock to be listed and traded. Even if our common stock or warrants are accepted for listing on the TSX-V, the TSX-V has continuing listing requirements and we may not be able to comply with those requirements and maintain our listing. If our common stock and warrants are not listed on the TSX-V, we may seek to have them quoted on the OTC Bulletin Board of the US Financial Industry Regulatory Authority, Inc. (FINRA). The OTC Bulletin Board is an inter-dealer, over-the-counter market that provides significantly less liquidity and transparency than the TSX-V. Therefore, prices for securities traded solely on the OTC Bulletin Board may be difficult to obtain and holders of our common stock and warrants may be unable to resell their securities at or near their original offering price or at any price.

Purchasers of our units may not be able to exercise their warrants if we cannot maintain a current prospectus relating to the common stock underlying the warrants.

The warrants included in the units may be exercised only if at the time of exercise (i) a prospectus relating to the issuance of the shares of our common stock underlying the warrants is then current or an exemption from registration under the federal securities laws is available and (ii) those shares are registered or qualified for sale or exempt from registration or qualification under the securities laws of the states in which the holders of the warrants reside. The issuance of the shares of our common stock underlying the warrants is covered by this prospectus but we may not be able to keep this prospectus or any other prospectus we file with the SEC covering the issuance of those shares current and such exemptions may not be available. We intend to apply to register or qualify the issuance of those shares in California, Connecticut, Delaware, Florida, Georgia, Illinois, Maryland, Massachusetts, Nevada, New Jersey, New York, Ohio, Oregon, Virginia and Washington but we may not be able to maintain those

registrations or qualifications. If we are not able to do so and no exemption from registration is available, the holders of the warrants will not able to exercise their warrants and they will expire unexercised. We have no obligation to compensate the holders if they are not able to exercise their warrants because we have failed to maintain the effectiveness of a registration statement filed with the SEC or the registration or qualification filed with any state. If the warrants expire unexercised, the purchasers of units will have effectively paid the entire initial public offering price per unit for one share of our common stock.

Purchasers of our units may not be able to resell their shares of common stock or warrants at or near the offering price because the offering price for our units may not be indicative of their fair market value.

The offering price range for our units was determined in the context of negotiations between us and the agents. Accordingly, the offering price may not be indicative of the fair market value of our company or the fair market value of our common stock or the warrants included in the units. We are making no representations that the offering price of our units under this prospectus bears any relationship to our assets, book value, net worth or any other recognized criteria of our value. If an established trading market for our common stock or warrants develops, the prevailing prices in that market may be substantially less than the original offering price.

The market price of our common stock and warrants may decline because of the number of shares of our common stock eligible for future sale in the public marketplace.

The price of our common stock and warrants could decline if there are substantial sales of our common stock in the public market after this offering. Based on the number of shares of our common stock outstanding as of the date of this prospectus after pro-forma adjustments, upon completion of this offering the number of shares of our common stock outstanding will be between 275,105,285 (assuming that we receive the minimum gross proceeds from this offering (Cdn$6,000,000) at an initial public offering price of Cdn$0.15 (the minimum of our estimated initial public offering price range)) and 285,305,285 (assuming that we sell the maximum number of units offered under this prospectus). All of the shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, except for any of those shares held by our "affiliates," as that term is defined in Rule 144 under the Securities Act, whose sales would be subject to the volume and manner of sale limitations of Rule 144 described below. In addition, 134,836,808 shares of our common stock currently outstanding, or between approximately 47% and 49% of our common stock outstanding after this offering depending on the number of units sold, may be resold at any time, subject to the lock-up agreements and TSX-V escrow arrangements and seed share resale restrictions described below. Our executive officers and directors currently own 82,987,672 shares, or approximately 29% of our common stock outstanding after this offering, which are eligible for resale subject to the volume and manner of sale limitations of Rule 144 and subject to the lock-up agreements and TSX-V escrow arrangements described below. The remaining 2,444,447 shares of our common stock currently outstanding, or approximately 0.9% of our common stock outstanding after this offering, are "restricted" under Rule 144 and are eligible for sale under the provisions of Rule 144. See "Shares Eligible for Future Resale."

Additionally, under our fiscal advisory fee agreement with the Canadian agents, we are obligated to issue to the Canadian agents at the closing of this offering, in payment of a fiscal advisory fee, that number of shares of our common stock equal to, depending on the gross proceeds of the offering, between 1.0% and 2.0% of our common stock issued and outstanding immediately upon the closing of the offering. The issuance of those shares to the Canadian agents is not covered by this prospectus. The shares issued to our Canadian agents under the agreement will be subject to resale restrictions in accordance with applicable US and Canadian securities laws and contractual resale restrictions for a period of one year following the closing of the offering under the lock-up agreements described below.

After this offering and the expiration of the lock-up periods, the holders of an aggregate of 31,764,437 shares of our common stock will have rights, subject to some conditions, to require us to include their shares in registration statements that we may file for ourselves or other stockholders. We also intend to register for resale all shares of common stock that we have issued and may issue under our option plans. Once we register these shares, subject to any lock-up restrictions, if any, they can be freely sold in the public market. Furthermore, our agents may, at their discretion and at any time without notice, release all or any portion of the securities from the restrictions on sale imposed by lock-up agreements. Due to

these factors, sales of a substantial number of shares of our common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares are able to or intend to sell shares, could reduce the market price of our common stock. See "Dilution."

Purchasers of our units may not be able to resell their shares of common stock or warrants at or above the initial public offering price because the market price of our common stock and warrants may be highly volatile.

Prior to this offering, there has been no public market for our securities. We have applied to list our common stock on the TSX-V under the symbol " ● ." Listing of our common stock will be subject to fulfilling all of the requirements of the TSX-V. We have also applied for listing of the warrants included in the units on the TSX-V under the symbol " ● ." Listing of our warrants included in the units will be subject to fulfilling all of the requirements of the TSX-V, including distribution of the warrants to a minimum number of public security holders. An active trading market for our common stock and warrants may not develop following this offering. You may not be able to sell your common stock or warrants quickly or at the market price if trading in our common stock or warrants is not active.

The market for our common stock and warrants will likely be characterized by significant price volatility when compared to more established issuers and we expect that it will continue to be so for the foreseeable future. The market prices of our common stock and warrants are likely to be volatile for a number of reasons. First, our common stock and warrants are likely to be sporadically and/or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of common stock or warrants may disproportionately influence their prices in either direction. The price of the common stock could, for example, decline precipitously if even a relatively small number of shares are sold on the market without commensurate demand, as compared to a market for shares of an established issuer which could better absorb those sales without adverse impact on its share price. Secondly, we are a speculative or "risky" investment due to our small amount of sales and lack of profits to date and uncertainty of future market acceptance for our current and potential products or engineering services. As a consequence of this enhanced risk, more risk-adverse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their common stock or warrants on the market more quickly and at greater discounts than would be the case with the securities of an established issuer. We cannot make any predictions or projections as to what the prevailing market prices for our securities will be at any time or as to what effect the sale of our securities or the availability of our securities for sale at any time will have on the prevailing market price.

Purchasers of our units will experience immediate and substantial dilution because their securities will be worth less on a net tangible book value basis than the amount they invested.

The price that will be paid by investors in this offering for our units will be significantly higher than the net tangible book value per share of our common stock. Purchasers of our units will experience immediate and substantial dilution of between $(0.1391) assuming that we receive the minimum gross proceeds from this offering (Cdn$6,000,000) at an initial public offering price of Cdn$0.15 (the minimum of our estimated initial public offering price range) based on the sale of 40,000,000 units and $(0.2151) assuming that we sell the maximum number of units offered under this prospectus (50,000,000 units) at an initial public offering price of Cdn$0.25 (the maximum of our estimated initial public offering price range). In addition, a majority of our outstanding options, warrants, convertible debt and convertible preferred stock may be exercised for or converted into shares of our common stock at prices that are below the expected purchase price paid by investors in this offering. In connection with this offering, we will issue warrants as part of the units and agent options exercisable to purchase that number of shares of our common stock and warrants equal to 12.5% of the aggregate number of shares of our common stock and warrants sold under the offering, at the initial public offering price per share and warrant, for a period of 12 months from the closing date. To the extent that these outstanding options, warrants, convertible debt or convertible preferred stock are exercised or converted, there may be further dilution to investors. In addition, under our fiscal advisory fee agreement with the Canadian agents, we are obligated to issue to the Canadian agents at the closing of this offering, in payment of a fiscal advisory fee, that number of shares of our common stock equal to, depending on the gross proceeds of the offering, between 1.0% and 2.0% of our common stock issued and

outstanding immediately upon the closing of the offering, which will further dilute investors. Accordingly, in the event we are liquidated, investors may not receive the full amount of their investment. See "Dilution."

If management continues to own a significant percentage of our outstanding common stock management may prevent other stockholders from influencing significant corporate decisions.

Our officers and directors currently own approximately 38% of the outstanding shares of our common stock. Following the completion of this offering, our executive officers and directors will own between approximately 31% (assuming that we receive the minimum gross proceeds from this offering (Cdn$6,000,000) at an initial public offering price of Cdn$0.15 (the minimum of our estimated initial public offering price range) and approximately 30% (assuming that we sell the maximum number of units offered under this prospectus (50,000,000 units)) of the outstanding shares of our common stock. As a result, our management will exercise significant control over matters requiring stockholder approval, including the election of our board of directors, the approval of mergers and other extraordinary transactions, as well as the terms of any of these transactions. This concentration of ownership could have the effect of delaying or preventing a change in our control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which could in turn have an adverse effect on the fair market value of our company and our common stock. The interests of these and other of our existing stockholders may conflict with the interests of our other stockholders.

Management will have broad discretion as to the use of the proceeds from this offering and may use the proceeds for purposes different from their current intent or not utilize the proceeds effectively.

While we intend to use the net proceeds of this offering to fund capital expenditures, sales and marketing efforts and research and development, repay bank and certain other borrowings, and for general corporate purposes, including working capital, we will have broad discretion to adjust the application and allocation of the net proceeds in order to address changed circumstances and opportunities. The success of our operations that are influenced by capital expenditures, research and development and working capital allocations will be substantially dependent upon the discretion and judgment of our management with respect to the application and allocation of the net proceeds of this offering. Our management will have broad discretion as to the application of the net proceeds and could use them for purposes other than those contemplated at the time of this offering. Moreover, our management may use the net proceeds for corporate purposes that may not lead to profitability or increase the fair market value of our company or our common stock.

It may be difficult for us to attract or retain qualified officers and directors because of the rules and regulations that we will be subject to as a public company.

As a public company, the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) and the related rules and regulations of the SEC, as well as the rules and regulations of applicable Canadian securities regulators and the rules of the TSX-V (if our listing application is accepted), will require us to implement additional corporate governance practices and adhere to a variety of reporting requirements and complex accounting rules. Among other things, we will be subject to rules regarding the independence of the members of our board of directors and committees of the board and their experience in finance and accounting matters and certain of our executive officers will be required to provide certifications in connection with our quarterly and annual reports filed with the SEC and applicable Canadian securities regulators. The perceived increased personal risk associated with these rules may deter qualified individuals from accepting these positions. Accordingly, we may be unable to attract and retain qualified officers and directors. If we are unable to attract and retain qualified officers and directors, our business and our ability to obtain or maintain the listing of our shares of common stock on a stock exchange could be adversely affected.

If we fail to implement and maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud and may fail to comply with SEC rules and the rules and regulations of applicable Canadian securities regulators.

We must implement and maintain effective internal financial controls for us to provide reliable and accurate financial reports and effectively prevent fraud. Implementation and maintenance of effective internal financial controls will depend on the effectiveness of our financial reporting and data systems and controls. We expect these

systems and controls to become increasingly complex to the extent that our business grows. To effectively manage this growth, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. We cannot be certain that these measures will ensure that we design, implement and maintain adequate controls over our financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation or operation, could harm our operating results or cause us to fail to meet our financial reporting obligations. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the market price of our common stock and our access to capital.

Rules adopted by the SEC pursuant to Section 404 of Sarbanes-Oxley require annual assessment of our internal control over financial reporting, and attestation of this assessment by our independent registered public accountants. Under the SEC rules currently in effect, both the management assessment of our internal control over financial reporting and the attestation of management's assessment by our independent registered public accountants will first apply to our annual report for the 2010 fiscal year. The standards governing management's assessment of internal control over financial reporting are new and complex, and require significant documentation, testing and possible remediation to meet the detailed standards. In addition, the attestation process by our independent registered public accountants is new and we may encounter problems or delays in completing the implementation of any requested improvements and receiving an attestation of our assessment by our independent registered public accountants. If we cannot assess our internal control over financial reporting as effective, or our independent registered public accountants are unable to provide an unqualified attestation report on such assessment, investors could lose confidence in our reported financial information, which could have a negative effect on the market price of our common stock and our access to capital.

In addition, management's assessment of internal control over financial reporting may identify weaknesses and conditions that need to be addressed in our internal control over financial reporting or other matters that may raise concerns for investors. Any actual or perceived weaknesses and conditions that need to be addressed in our internal control over financial reporting, disclosure of management's assessment of our internal control over financial reporting, or disclosure of our independent registered public accounting firm's attestation to our report on management's assessment of our internal control over financial reporting may have a negative effect on the market price of our common stock and our access to capital.

The additional expenses that we will incur as a public company, and the time our management will be required to devote to new compliance initiatives, may have a material adverse affect on our business and results of operations.

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, Sarbanes-Oxley and the related rules and regulations of the SEC, as well as the rules and regulations of applicable Canadian securities regulators and the rules of the TSX-V (if our listing application is accepted), impose various requirements on public companies, including requiring changes in corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. For example, we expect these new rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to incur substantial costs to maintain the same or similar coverage. Compliance with Section 404 of Sarbanes-Oxley will also require that we incur substantial accounting expenses and expend significant management efforts.

If our common stock is considered a "penny stock" it will be subject to additional sale and trading regulations that may make it more difficult to sell.

Our common stock, which is not currently listed or quoted on any national securities exchange or national quotation system, may be considered to be a "penny stock" if it does not qualify for one of the exemptions from the definition of "penny stock" under Rule 3a51-1 under the Securities Exchange Act of 1934 (Exchange Act). Our common stock may be a "penny stock" if it meets one or more of the following conditions (i) the stock trades at a price less than $5.00 per share; (ii) it is not traded on a "recognized" national exchange; (iii) it is not quoted on the

NASDAQ Capital Market, or even if so, has a price less than $5.00 per share; or (iv) is issued by a company that has been in business less than three years with net tangible assets less than $5,000,000.

The principal result or effect of being designated a "penny stock" is that US securities broker-dealers participating in sales of our common stock will be subject to the "penny stock" regulations set forth in Rules 15g-2 through 15g-9 promulgated under the Exchange Act. For example, Rule 15g-2 requires broker-dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document at least two business days before effecting any transaction in a penny stock for the investor's account. Moreover, Rule 15g-9 requires broker-dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stock to that investor. This procedure requires the broker-dealer to (i) obtain from the investor information concerning his or her financial situation, investment experience and investment objectives; (ii) reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions; (iii) provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and (iv) receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives. Compliance with these requirements may make it more difficult and time consuming for holders of our common stock to resell their shares to third parties or to otherwise dispose of them in the market or otherwise.

Because we do not intend to pay dividends on our common stock, our stockholders will only realize a return (or recovery of a portion of their initial investment) on their investment upon the sale of their shares.

We have never declared or paid any cash dividends on our common stock. We currently intend to retain our future earnings, if any, to finance the operation and growth of our business and do not expect to pay any cash dividends.

Our certificate of incorporation, by-laws and Delaware law may discourage takeovers and business combinations that our stockholders might consider in their best interests.

Provisions in our certificate of incorporation and by-laws may delay, defer, prevent or render more difficult a takeover attempt that our stockholders might consider in their best interests. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the market value of our common stock if they are viewed as discouraging takeover attempts in the future. See "Description of Capital Stock" for additional information on the anti-takeover measures applicable to us.

Provisions in the amended and restated certificate of incorporation and amended and restated bylaws that will be in effect immediately after the closing of this offering, as well as provisions of Delaware law, could make it more difficult for a third party to acquire us, even if doing so would benefit our stockholders. Our proposed amended and restated certificate of incorporation and bylaws:

- provide that the authorized number of directors may be changed only by resolution of the board of directors;
- provide that all vacancies, including newly created directorships, may, except as otherwise required by law, be filled by the affirmative vote of a majority of directors then in office, even if such number is less than a quorum;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting of stockholders and not by written consent;
- provide that stockholders seeking to present proposals before a meeting of stockholders or to nominate candidates for election as directors at a meeting of stockholders must provide notice in writing in a timely manner, and also specify requirements as to the form and content of a stockholder's notice;
- do not provide for cumulative voting rights, therefore allowing the holders of a majority of the shares of our common stock entitled to vote in any election of directors to elect all of the directors standing for election, if they should so choose; and

- provide that special meetings of our stockholders may be called only by the chairman of the board, our chief executive officer or by the board of directors pursuant to a resolution adopted by a majority of the total number of authorized directors.

The amendment of any of these provisions would require approval by the holders of at least two thirds of our voting stock then outstanding, voting together as a single class.

In addition, we may become subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with an interested stockholder for a period of three years following the date on which the stockholder became an interested stockholder. This provision could have the effect of delaying or preventing a change of control, whether or not it is desired by or beneficial to our stockholders.

If we issue new shares of preferred stock your rights as a holder of our common stock or warrants may be materially adversely affected.

As of the date of this prospectus, we are authorized to issue up to 6,745,681 shares of preferred stock. Immediately after the closing of this offering, the number of shares of preferred stock we are authorized to issue will be reduced to 5,000,000 shares. The designations, rights and preferences of our preferred stock may be determined from time-to-time by our board of directors. Accordingly, our board of directors is empowered, without shareholder approval, to issue one or more series of preferred stock with dividend, liquidation, conversion, voting or other rights superior to those of the holders of our common stock. For example, an issuance of shares of preferred stock could:

- adversely affect the voting power of the holders of our common stock;
- make it more difficult for a third party to gain control of us;
- discourage bids for our common stock;
- limit or eliminate any payments that the holders of our common stock could expect to receive upon our liquidation; or
- adversely affect the market price of our common stock.

168,500 shares of our Series C Preferred Stock were outstanding as of the date of this prospectus. We have agreed with the agents to use our best efforts to cause all of the outstanding shares of our Series C Preferred Stock, together with all dividends accrued and unpaid thereon, to be converted into common stock prior to the effective time of the registration statement of which this prospectus forms a part.

Purchasers of our units in this offering may be diluted if we raise additional funds.

Our operations to date have consumed substantial amounts of cash, and we expect our capital and operating expenditures to increase in the next few years. We believe that our existing capital resources and anticipated cash flow from planned operations, together with the net proceeds of this offering (assuming that we raise the minimum gross proceeds from this offering (Cdn$6,000,000), should be adequate to satisfy our cash requirements for the next 12 months. However, we may need significant additional capital before that time. Any additional required financing may not be available on acceptable terms or at all. If we raise additional funds by issuing equity securities or convertible debt securities, further dilution to existing stockholders may result. If adequate funds are not available, our business, financial condition and results of operations and the market price of our common stock would be materially adversely affected.

We may not be able to meet our liquidity needs or to access capital when necessary because of adverse capital and credit market conditions.

We have historically relied on private placements of equity and debt to fund our operating losses and capital expenditure. During the past 12 months, the capital and credit markets experienced extreme volatility and disruption. Disruptions, uncertainty or volatility in the capital and credit markets may limit our ability to access the capital necessary to operate and grow our business. Adverse capital and credit market conditions may force us to

delay raising capital or bear an unattractive cost of capital which could significantly reduce our financial flexibility. Our results of operations, financial condition, cash flows and capital position and the market value of our common stock could be materially adversely affected by disruptions in the financial markets.

If we sell additional shares of our common stock or preferred stock, we may not be able to fully utilize our net operating loss carryforwards and certain other tax attributes.

As of June 30, 2009, we had net operating loss carryforwards of approximately $13,500,000 million for Federal and state income tax purposes. Under Section 382 of the Internal Revenue Code, if a corporation undergoes an "ownership change," the corporation's ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change income may be limited. An ownership change is defined for these purposes as a greater than 50% change in its equity ownership by value over a three-year period. We may also experience ownership changes in the future as a result of this offering or subsequent changes in our stock ownership.

GENERAL MATTERS

All references to Vuzix, the "company," "we," "us" and "our" are references to Vuzix Corporation.

Unless otherwise indicated, all references to "dollars," "US$," or "$" in this prospectus are to United States dollars and all references to "Cdn$" are to Canadian dollars. Unless otherwise indicated, all Canadian dollar values have been translated to US dollars, or vice versa, using a convenience translation of US$1.00 = Cdn$1.0424, the closing buying rate of the Bank of Canada on October 8, 2009.

This prospectus contains various company names, product names, trade names, trademarks and service marks, all of which are the properties of their respective owners.

Unless otherwise indicated, all references to "GAAP" in this prospectus are to United States generally accepted accounting principles.

We completed a 1-for-7 reverse stock split of our common stock in June 2007 and an 8-for-1 split of our common stock in July 2008. All share numbers and amounts per share in this prospectus have been retroactively adjusted to give effect to these changes.

Information contained on our websites, including www.vuzix.com, shall not be deemed to be part of this prospectus or incorporated herein by reference and should not be relied upon by prospective investors for the purposes of determining whether to purchase the units offered hereunder.

You should rely only on the information contained in this prospectus. We have not, and the agents have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the agents are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

For investors outside the United States, neither we nor any of our agents have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States and certain provinces of Canada. You are required to inform yourself about and to observe any restrictions relating to this offering and the distribution of this prospectus.

USE OF MARKET AND INDUSTRY DATA

This prospectus includes market and industry data that has been obtained from third party sources, including industry publications, as well as industry data prepared by our management on the basis of its knowledge of and experience in the industries in which we operate (including our management's estimates and assumptions relating to those industries based on that knowledge). Management's knowledge of such industries has been developed through its experience and participation in those industries. Although our management believes such information to be reliable, neither we nor our management have independently verified any of the data from third party sources referred to in this prospectus or ascertained the underlying economic assumptions relied upon by such sources. In addition, the agents have not independently verified any of the industry data prepared by management or ascertained the underlying estimates and assumptions relied upon by management. Furthermore, references in this prospectus to any publications, reports, surveys or articles prepared by third parties should not be construed as depicting the complete findings of the entire publication, report, survey or article. The information in any such publication, report survey or article is not incorporated by reference in this prospectus.

FORWARD-LOOKING STATEMENTS

This prospectus contains, in addition to historical information, forward-looking statements. 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 "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Use of Proceeds" and "Business." Forward-looking statements include statements concerning:

- our possible or assumed future results of operations;
- our business strategies;
- our ability to attract and retain customers;
- our ability to sell additional products and services to customers;
- our cash needs and financing plans;
- our competitive position;
- our industry environment;
- our potential growth opportunities;
- expected technological advances by us or by third parties and our ability to leverage them;
- the effects of future regulation; and
- the effects of competition.

All statements in this prospectus 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.

The outcome of the events described in these forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. These important factors include our financial performance and the other important factors we discuss in greater detail in "Risk Factors." You should read these factors and the other cautionary statements made in this prospectus as applying to all related forward-looking statements wherever they appear in this prospectus. Given these factors, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date on which the statements are made. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. You should read this prospectus and the documents that we reference in this prospectus and have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we currently expect.

USE OF PROCEEDS

This offering is subject to us raising minimum gross proceeds of Cdn$6,000,000. If we raise the minimum gross proceeds from this offering we estimate that the net proceeds to us, after payment of agents' commissions and offering expenses, would be approximately Cdn$5,000,000. Assuming that we sell the maximum number of units offered (50,000,000 units) at Cdn$0.25 per unit (the maximum of our estimated initial public offering price range), we would receive gross proceeds of Cdn$12,500,000 and estimate that the net proceeds to us, after payment of agents' commissions and offering expenses, would be approximately Cdn$11,000,000.

Assuming that we receive the estimated maximum amount of the proceeds from this offering, we plan to use approximately $1,181,000 of the net proceeds from this offering to repay the outstanding principal amounts of and interest accrued on our lines of credit and notes payable. The indebtedness we plan to repay includes $165,500 in principal amount plus interest payable to Paul J. Travers, our President and Chief Executive Officer, under a revolving loan agreement that we entered into with Mr. Travers in October 2008. Our indebtedness to Mr. Travers has been incurred since October 2008 and was incurred to fund our working capital requirements. This indebtedness bears interest at the annual rate of 12.0% and is payable on demand. The indebtedness under our lines of credit bears interest at annual rates ranging from 4.25% to 7.5% and is payable on demand. $500,000 in principal amount of the indebtedness we plan to repay from the proceeds of the offering was due and payable on January 31, 2009 and currently bears interest at the annual rate of 18.0%. $200,000 in principal amount of indebtedness that we plan to repay from the proceeds of the offering bears interest at an annual rate of 18.0% and is due and payable on October 31, 2009. We borrowed this $200,000 from three individual lenders (including $50,000 from Mr. Paul Churnetski, our Vice President of Quality Assurance and the beneficial owner of approximately 9% of our issued and outstanding common stock) to finance part of our working capital investment for a defense order that is currently in process and we intend to repay those loans out of revenues from that defense order if this offering does not close prior to the maturity date. Prior to the closing of this offering, we may borrow an additional $100,000 from one or more individual lenders on the same terms and conditions. We may not be able to borrow these additional funds on the same terms, or at all. We may not receive sufficient proceeds from this offering to repay any of this indebtedness.

We intend to use the remainder of the net proceeds from this offering for:

- new product development and research expenses;
- capital expenditures;
- selling, marketing, general and administrative expenses;
- possible acquisitions of businesses, technologies or other assets; and
- general corporate purposes.

We intend to continue our development and tooling of new products that leverage our advancements in our optics and electronics technology. We believe that these new technologies, if successfully implemented, will result in significant performance improvements in our products and as a result increase our overall customer demand. Assuming that we receive the estimated maximum amount of the proceeds from this offering, our current development plans by product line are as follows:

New Product Development Objectives	Completion Date
Wrap Video Eyewear (consumer)	Fall 2009
Blade Video Eyewear (consumer)	Spring 2010
Blade Tac-Eye (defense)	Summer 2010
Blade low vision-assist product	Fall 2010
Blade II display engine	Spring 2011

Among the capital expenditures that we propose to finance from the proceeds of this offering over the next 18 months are the expansion of our manufacturing facilities and the purchase of engineering equipment and computer hardware and software. Among the sales and marketing expenditures that we propose to finance from the

proceeds of this offering over the next 18 months is the purchase of new point of purchase (POP) display systems to show case our new products at retail outlets that we expect to carry our new products as they are released. The amounts of the proceeds from the offering that we propose to use for the purposes described above will depend on the proceeds from the offering. The table below sets forth the amount of the proceeds from this offering that we propose to use for (1) the purchase of computers and equipment; (2) new product tooling; (3) new product engineering and design; (4) general research and development; (5) the purchase of POP display systems; and (6) working capital purposes depending on the gross proceeds from the offering over the range from Cdn$6,000,000 (the minimum gross proceeds of the offering) to Cdn$12,500,000 (the gross proceeds that we would receive upon the sale of 50,000,000 units (the maximum number of units offered under this prospectus) at Cdn$0.25 (the maximum of our estimated initial public offering price range). This table does not set forth all possibilities. Regardless of the number of units sold, we expect to incur offering expenses estimated at approximately Cdn$546,000 for legal, accounting, printing, and other costs in connection with this offering. We may not receive sufficient proceeds from this offering to undertake all these new product development and tooling programs, capital expenditures, sales and marketing efforts and ongoing research and accordingly we will have to reduce the speed and number of our new product development plans and the number of new products under development. We may also use a portion of the net proceeds to acquire businesses, technologies or other assets. We have no agreements or arrangements with respect to any acquisitions at the present time. There is no guarantee that we will be successful at selling any of the securities being offered in this prospectus. Accordingly, the actual amount of proceeds we will raise in this offering, if any, may differ.

Gross proceeds (Cdn$)	$ 6,000,000	$8,000,000	$ 10,000,000	$ 12,500,000
Less offering expenses:				
Selling agents' commission (Cdn$)	480,000	640,000	800,000	1,000,000
Estimated expenses of offering (Cdn$)	522,000	522,000	522,000	522,000
Net proceeds from offering (Cdn$)	4,998,000	6,838,000	8,678,000	10,978,000
Net proceeds (US$)	4,794,000	6,559,000	8,325,000	10,531,000
Less use of net proceeds (US$):				
Repayment of debt	1,181,000	1,181,000	1,181,000	1,181,000
Computers and equipment	150,000	200,000	300,000	400,000
New product tooling	500,000	700,000	850,000	1,000,000
New product engineering and design	250,000	350,000	400,000	550,000
General R&D	225,000	350,000	600,000	900,000
Marketing POPs	350,000	450,000	625,000	750,000
Total planned use of proceeds	2,656,000	3,328,000	4,369,000	5,750,000
Unallocated for general working capital	$ 2,138,000	$3,328,000	$ 4,369,000	$ 5,750,000

Although we intend to use the proceeds from the offering as set forth above, the actual amount that we spend in connection with each intended use of the proceeds may vary significantly from the amounts specified above and will be dependent on a number of factors, including those referenced under "Risk Factors".

Notwithstanding the foregoing, we cannot specify with certainty the uses for the net proceeds to be received upon the completion of this offering. Our management will have broad discretion as to how to spend and invest between the approximately Cdn$2,100,000 and Cdn$5,750,000 in possible unallocated general working capital as shown in the table above. Investors will be relying on the judgment of our management regarding the application of these proceeds. You will not have the opportunity to evaluate the economic, financial or other information on which we base our decisions on how to use these proceeds. The timing and amount of our actual expenditures will be based on many factors, including cash flows (used for) or from operations, available technology advances and the growth of our business. The funds may not be fully used for a significant period following the closing of the offering. Pending the uses described above, we intend to invest the net proceeds from this offering in short-term, investment grade, interest bearing securities. We cannot predict whether the proceeds invested will yield a favorable return.

We have agreed with Mr. Travers and Grant Russell, our Executive Vice President and Chief Financial Officer, that we will pay them deferred compensation in the aggregate amount of $445,096, plus interest at the annual rate of 8.0%, and $209,208 in aggregate principal amount, plus interest at the annual rate of 8.0%, in repayment of loans made to us more than five years ago by those officers to finance our operations, either in one lump sum on or before the first anniversary of the closing of this offering from the proceeds of the exercise of the warrants included in the units and the warrants issuable upon exercise of the agents' compensation options if and when at least 50% of those warrants are exercised or otherwise in 12 equal monthly installments beginning on the first anniversary of the closing of this offering until paid in full. Any additional proceeds from any exercise of the warrants included in the units and the warrants issuable upon exercise of the agents' compensation options will be used for working capital. If all of these warrants were to be exercised, we would receive additional funds ranging in total of approximately Cdn$4,500,000 to Cdn$9,375,000. These warrants may not be exercised before they expire 36 months after the closing.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock. We currently intend to retain all available funds and any future earnings to support our operations and finance the growth and development of our business. We do not intend to pay cash dividends on our common or preferred stock for the foreseeable future. Any future determination related to dividend policy will be made at the discretion of our board of directors. Additionally, our lines of credit prohibit us from paying cash dividends at any time at which any amount remains outstanding under the lines. Although the outstanding principal amounts of and interest accrued on our lines of credit will be paid in full from the proceeds of this offering we expect that we will draw down on the lines of credit from time to time after this offering. We are not subject to any restrictions that would prevent us from paying a dividend except for the restrictions under our lines of credit and restrictions under TSX-V policies, our certificate of incorporation and bylaws and the Delaware General Corporation Law.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and our capitalization as of June 30, 2009:

- on an actual basis;
- on a *pro forma* basis assuming the conversion of (i) 168,500 shares of our Series C Preferred Stock outstanding immediately prior to the closing of this offering, together with all dividends accrued and unpaid thereon, at the conversion price of $0.2917 per share into 7,060,914 shares of our common stock; and (ii) $75,000 in aggregate principal amount of convertible promissory notes, together with all interest accrued and unpaid thereon, at the conversion price of $0.057089 per share into 2,251,985 shares of our common stock; and
- on a *pro forma* as adjusted basis assuming the events described above and the sale in this offering of (i) 40,000,000 units at an initial public offering price of Cdn$0.15 per unit (the minimum of our estimated initial public offering price range) resulting in gross proceeds of Cdn$6,000,000 (the minimum gross proceeds to us of this offering); (ii) 40,000,000 units at an initial public offering price of Cdn$0.20 per unit (the midpoint of our estimated initial public offering price range) resulting in gross proceeds of Cdn$8,000,000; (iii) 50,000,000 units at an initial public offering price of Cdn$0.20 per unit (the midpoint of our estimated initial public offering price range) resulting in gross proceeds of Cdn$10,000,000; and (iv) the sale of 50,000,000 units (the maximum number of units offered under this prospectus) at an initial public offering price of Cdn$0.25 per unit (the maximum of our estimated initial public offering price range) resulting in gross proceeds of Cdn$12,500,000, after deducting estimated underwriting commissions and offering expenses of between Cdn$1,002,000 and $1,522,000, and the issuance of between 2,696,123 and 5,592,246 shares of our common stock to the Canadian agents in payment of a fiscal advisory fee.

You should read the information in this table together with our consolidated financial statements and accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus.

	June 30, 2009					
	Actual (Unaudited)	Pro Forma	Pro Forma As Adjusted			
Gross proceeds from offering (Cdn$)			$ 6,000,000	$ 8,000,000	$ 10,000,000	$ 12,500,000
Estimated net proceeds from offering (US$)			4,794,000	6,559,000	8,325,000	10,531,000
Cash and cash equivalents	$ 285,126		5,079,126	6,844,126	8,610,126	10,816,126
Long-term debt (non-convertible) and related accrued interest	1,294,268		1,294,268	1,294,268	1,294,268	1,294,268
Accrued cumulative preferred dividends	374,849	(374,849)	—	—	—	—
Convertible promissory notes and bridge loans and related accrued interest	128,563	(128,563)	—	—	—	—
Total long-term obligations	1,797,680		1,294,268	1,294,268	1,294,268	1,294,268
Stockholders' Equity:						
Preferred stock			—	—	—	—
Series C preferred stock ($0.001 par value), 500,000 shares authorized, 168,500 and 0 shares issued and outstanding, actual and pro forma	169	(169)				
Common Stock						
Common stock ($0.001 par value), 400,000,000 shares authorized, 220,268,927 and 229,581,826 shares issued and outstanding, actual and pro forma	220,269	9,343	275,005	275,005	285,205	285,205
Additional paid-in capital	12,979,093	494,238	18,221,938(1)	19,986,938(1)	21,742,738(2)	23,948,738(2)
Subscriptions receivable	(227,336)		(227,336)	(227,336)	(227,336)	(227,336)
Accumulated deficit	(16,225,391)		(16,225,391)	(16,225,391)	(16,225,391)	(16,225,391)
Total stockholders' equity (deficit)	(3,253,196)		2,044,216	3,809,216	5,575,216	7,781,216
Total capitalization	$ (1,170,390)		$ 8,417,610	$ 11,947,610	$ 15,479,610	$ 19,891,610

(1) 275,004,557 shares of common stock issued and outstanding on a pro forma as adjusted basis.

(2) 285,204,557 shares of common stock issued and outstanding on a pro forma as adjusted basis.

The number of shares of common stock to be outstanding immediately after this offering is based on the number of shares outstanding as of June 30, 2009 and excludes:

- 15,304,554 shares of our common stock issuable upon exercise of then outstanding options under our 2007 option plan, having a weighted average exercise price of $0.0999 per share;
- 1,200,000 shares of our common stock issuable upon exercise of options under our 2009 option plan that we intend to grant to our non-employee directors at the closing of this offering, each having a per share exercise price equal to the initial public offering price per unit; and
- 7,069,988 shares of our common stock issuable upon exercise of outstanding warrants, having a weighted average exercise price of $0.1815 per share.

In consideration of certain fiscal advisory services rendered by the Canadian agents to us pursuant to a fiscal advisory fee agreement between us and the Canadian agents, we have agreed to issue to the Canadian agents at the closing of this offering, in payment of a fiscal advisory fee, that number of shares of our common stock equal to, depending on the gross proceeds of the offering, between 1.0% and 2.0% of our common stock issued and

outstanding immediately upon the closing of the offering. The issuance of these shares to the Canadian agents is not covered by this prospectus. These shares will be issued pursuant to exemptions from the registration requirements of applicable United States and Canadian securities laws and subject to resale restrictions under those laws and a lock-up agreement for one year. See "Underwriting — Fiscal Advisory Fee Agreement."

Consolidated Capitalization

Except as disclosed in the table above, there have been no material changes in our share and loan capital since December 31, 2008.

DILUTION

If you invest in our units in this offering, your ownership interest will be diluted to the extent of the difference between the initial public offering price per unit and the pro forma net tangible book value per share of our common stock after this offering. The historical net tangible book value of our common stock as of June 30, 2009 was a deficit of approximately $5,700,000, or $(0.0256) per share, based on the number of shares outstanding as of June 30, 2009. Historical net tangible book value per share is determined by dividing the number of outstanding shares of our common stock into our total tangible assets, or total assets less intangible assets, less our total liabilities and less the carrying value of our total convertible preferred stock. Investors participating in this offering will incur immediate, substantial dilution. Our pro forma net tangible book value as of June 30, 2009 was a deficit of approximately $(3,500,000), or approximately $(0.0161) per share. Pro forma net tangible book value per share represents the amount of our total tangible assets less our total liabilities, divided by the pro forma number of shares of our common stock outstanding after giving effect to the conversion of all outstanding shares of our Series C Preferred Stock, together with all dividends accrued and unpaid thereon, into 7,062,324 shares of our common stock and $75,000 in aggregate principal amount of convertible promissory notes, together with all interest accrued and unpaid thereon, into 2,281,060 shares of our common stock upon completion of this offering.

The following table sets forth our pro forma as adjusted net tangible book value as of June 30, 2009 assuming the sale of (i) 40,000,000 units at an initial public offering price of Cdn$0.15 per unit (the minimum of our estimated initial public offering price range) resulting in gross proceeds of Cdn$6,000,000 (the minimum gross proceeds to us of this offering); (ii) 40,000,000 units at an initial public offering price of Cdn$0.20 per unit (the midpoint of our estimated initial public offering price range) resulting in gross proceeds of Cdn$8,000,000; (iii) 50,000,000 units at an initial public offering price of Cdn$0.20 per unit (the midpoint of our estimated initial public offering price range) resulting in gross proceeds of Cdn$10,000,000; and (iv) the sale of 50,000,000 units (the maximum number of units offered under this prospectus) at an initial public offering price of Cdn$0.25 per unit (the maximum of our estimated initial public offering price range) resulting in gross proceeds of Cdn$12,500,000, and after deducting estimated underwriting commissions and offering expenses of between Cdn$1,026,000 and Cdn$1,546,000, and the issuance of between 2,696,123 and 5,592,246 shares of our common stock to the Canadian agents in payment of a fiscal advisory fee:

Assumed number of units sold in offering	40,000,000	40,000,000	50,000,000	50,000,000
Historical net tangible book value per share as of June 30, 2009	$ (0.0256)	$ (0.0256)	$ (0.0256)	$ (0.0256)
Increase in net tangible book value deficit per share attributable to conversion of preferred stock and convertible notes	0.0095	0.0095	0.0095	0.0095
Pro forma net tangible book value deficit per share as of June 30, 2009	(0.0161)	(0.0161)	(0.0161)	(0.0161)
Increase in net tangible book value per share attributable to investors participating in this offering, after offering costs	0.0209	0.0273	0.0331	0.0408
Pro forma as adjusted net tangible book value per share after this offering	0.0048	0.0112	0.0170	0.0247
Assumed gross initial public offering price per unit (US$)	0.1439	0.1918	0.1918	0.2398
Pro forma dilution per share to investors participating in this offering	$ (0.1391)	$ (0.1806)	$ (0.1748)	$ (0.2151)

The following table summarizes, on a pro forma as adjusted basis as of June 30, 2009, the differences between the number of shares of common stock purchased from us, the total consideration and the average price per share paid by existing stockholders and by investors participating in this offering, after deducting estimated underwriting discounts and commissions and offering expenses of between Cdn$1,002,000 and Cdn$1,522,000, assuming the sale of the number of units at the initial public offering prices specified below and the issuance of the corresponding

number of shares of our common stock to the Canadian agents pursuant to our fiscal advisory fee agreement with the Canadian agents:

	Shares Purchased		Total Consideration		
	Number	Percent (%)	Amount	Percent (%)	Average Price per Share
Offering of 40,000,000 units at Cdn$0.15					
Existing stockholders before this offering	229,670,083	83.5	$13,475,607	73.8	$ 0.0587
Investors participating in this offering	40,000,000	14.5	4,794,704	26.2	0.1199
Agents (in payment of fiscal advisory fee)	5,392,246	2.0	—	0.0	0.0
Total	275,004,557	100.0	$18,270,311	100.0	$ 0.0664
Offering of 40,000,000 units at Cdn$0.20					
Existing stockholders before this offering	229,670,083	83.5	$13,475,607	67.3	$ 0.0587
Investors participating in this offering	40,000,000	14.5	6,559,862	32.7	0.1640
Agents (in payment of fiscal advisory fee)	5,392,246	2.0	—	0.0	0.0
Total	275,004,557	100.0	$20,035,469	100.0	$ 0.0729
Offering of 50,000,000 units at Cdn$0.20					
Existing stockholders before this offering	229,670,083	80.5	$13,475,607	61.8	$ 0.0587
Investors participating in this offering	50,000,000	17.5	8,325,019	38.2	0.1665
Agents (in payment of fiscal advisory fee)	5,592,246	2.0	—	0.0	0.0
Total	285,204,557	100.0	$21,800,626	100.0	$ 0.0764
Offering of 50,000,000 units at Cdn$0.25					
Existing stockholders before this offering	229,670,083	80.5	$13,475,607	56.1	$ 0.0587
Investors participating in this offering	50,000,000	17.5	10,531,466	43.9	0.2106
Agents (in payment of fiscal advisory fee)	5,592,246	2.0	—	0.0	0.0
Total	285,204,557	100.0%	$24,007,073	100.0	$ 0.0842

The discussion and table above assume no exercise of the agents' compensation options or any other options or warrants outstanding on the date of this prospectus. If the agents' compensation options are exercised in full, the number of shares of common stock held by existing stockholders will be reduced to 78.8% of the total number of shares of common stock to be outstanding after this offering, and the number of shares of common stock held by investors participating in this offering will be increased to 291,454,557 shares or 19.3% of the total number of shares of common stock outstanding after this offering.

In consideration of certain fiscal advisory services rendered by the Canadian agents to us pursuant to a fiscal advisory fee agreement between us and the Canadian agents, we have agreed to issue to the Canadian agents at the closing of this offering, in payment of a fiscal advisory fee, that number of shares of our common stock equal to, depending on the gross proceeds of the offering, between 1.0% and 2.0% of our common stock issued and outstanding immediately upon the closing of the offering. The table above assumes that we will issue the maximum number of shares issuable to the Canadian agents under the fiscal advisory fee agreement. The issuance of these shares to the Canadian agents is not covered by this prospectus. These shares will be issued pursuant to exemptions from the registration requirements of applicable United States and Canadian securities laws and subject to resale restrictions under these laws and a lock-up agreement for one year. See "Underwriting — Fiscal Advisory Fee Agreement."

The share data in the table above is based on the number of shares outstanding as of June 30, 2009 and excludes:

- 15,304,554 shares of our common stock issuable upon exercise of options then outstanding under our 2007 option plan, having a weighted average exercise price of $0.0883 per share;

- 1,200,000 shares of our common stock issuable upon exercise of options under our 2009 option plan that we intend to grant to our non-employee directors at the closing of this offering, each having a per share exercise price equal to the initial public offering price per unit; and
- 7,172,160 shares of common stock issuable upon exercise of then outstanding warrants, having a weighted average exercise price of $0.1815 per share.

To the extent that any of these options or warrants are exercised, new options are issued under our equity incentive plans or we issue additional shares of common stock in the future, there will be further dilution to investors participating in this offering.

Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange Risk

In 2008, approximately 85% of our total sales were comprised of sales to customers in the United States and 15% were comprised of sales to customers outside the United States. Of our sales received in 2008 from customers outside of the United States, 95% were paid in currencies other than US dollars. Therefore, our results could be negatively affected by such factors as changes in foreign currency exchange rates, trade protection measures and changes in regional or worldwide economic or political conditions. We also buy many components manufactured in other countries in transactions denominated in US dollars. The domestic currencies of some of those suppliers fluctuate with the US dollar. As a result, changes in the cost of our components can occur with each new purchase. A decrease in the value of the US dollar against our supplier's domestic currencies could negatively and materially affect our manufacturing costs. A 10% change in the value of the US dollar relative to each of the foreign currencies in which our sales are denominated would have resulted in a change in our sales of no more than 2%. Historically, we have not tried to reduce our exposure to exchange rate fluctuations by engaging in hedging activities.

Interest Rate Risk

At December 31, 2008, we had unrestricted cash and cash equivalents totaling $818,719, and at December 31, 2007 we had unrestricted cash and cash equivalents totaling $364,856. These amounts were not held in interest-bearing accounts. The unrestricted cash and cash equivalents were held for working capital purposes. We do not enter into investments for trading or speculative purposes. The interest rates on our $879,208 of notes payable outstanding at December 31, 2008 are fixed at a range of between 7.5% and 12.0% and a weighted average range of approximately 10%. If market interest rates increase, the fair value of our notes payable would decrease.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 141(R), *Business Combinations*, a revision to SFAS No. 141, *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) provides revised guidance for recognition and measurement of identifiable assets and goodwill acquired, liabilities assumed and any non-controlling interest in the acquiree at fair value. The statement also establishes disclosure requirements to enable the evaluation of the nature and financial effects of a business combination. SFAS No. 141(R) is required to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The impact of the adoption of SFAS 141(R) on our consolidated financial position and results of operations for the first two quarters of 2009 did not have a material effect on our consolidated financial statements. Any subsequent impact will be dependent on the size and nature of business combinations, if any, completed in the future.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements — an amendment of ARB No. 51* (SFAS No. 160). This statement establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent. Specifically, SFAS No. 160 requires the presentation of non-controlling interests as equity in the Consolidated Balance Sheets, and separate identification and presentation in the Consolidated Statements of Income of net income attributable to the entity and the non-controlling interest. It also establishes accounting and reporting standards regarding deconsolidation and changes in a parent's ownership interest. SFAS No. 160 is effective as of January 1, 2009. The provisions of

SFAS No. 160 are generally required to be applied prospectively, except for the presentation and disclosure requirements, which must be applied retrospectively. The adoption of SFAS No. 160 did not have a material effect on our consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of SFAS No. 157*. This FSP delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually). This FSP partially deferred the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. We adopted this FSP for our fiscal year 2009, and did not have a material impact on our consolidated financial statements in our first two quarters of that year.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS No. 161). This statement enhances the disclosure requirements related to derivative instruments and hedging activity to improve the transparency of financial reporting, and is effective for fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS No. 161 did not have a material effect on our consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events (FAS 165). This standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. FAS 165 is effective for fiscal years and interim periods ended after June 15, 2009. We adopted this standard during the quarter ended June 30, 2009 and have evaluated any subsequent events through the date of this filing. We do not believe there are any material subsequent events which would require further disclosure.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (FAS 168). FAS 168 replaces FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles,* and establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). FAS 168 is effective for interim and annual periods ending after September 15, 2009. We will begin to use the new guidelines and numbering system prescribed by the Codification when referring to GAAP during the quarter ended September 30, 2009. The Codification will not have an impact on our financial results.

SELECTED FINANCIAL AND OTHER DATA

The following tables present our summary financial data and should be read together with our financial statements and accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus. The summary financial data for the years ended December 31, 2008, 2007 and 2006 are derived from our audited annual financial statements, which are included elsewhere in this prospectus. The unaudited summary financial data as of June 30, 2009 and for the three and six months ended June 30, 2009 and 2008 have been derived from our unaudited interim financial statements, which are included elsewhere in this prospectus, and include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of our financial position and results of operations for these periods.

Statement of Operations Data	Three Months Ended June 30,		Six Months Ended June 30,	
	2009 (Unaudited)	2008 (Unaudited)	2009 (Unaudited)	2008 (Unaudited)
Sales	$ 2,063,733	$ 3,087,338	5,082,087	$ 4,807,982
Cost of Sales	1,390,819	1,871,661	3,221,861	3,358,739
Gross Margin	672,914	1,215,677	1,860,226	1,449,243
Operating Expenses				
Research and development	428,737	1,224,265	945,897	1,960,982
Selling and marketing	520,257	483,695	976,041	933,257
General and administrative	534,142	438,831	990,729	972,630
Depreciation and amortization	167,509	123,696	306,343	247,392
Total operating expenses	1,650,645	2,270,487	3,219,010	4,114,261
Profit (Loss) from operations	(977,731)	(1,054,810)	(1,358,784)	(2,665,018)
Interest and other income (expense)	11	—	59	166
Foreign exchange (loss) gain	(3,657)	(300)	(4,969)	(33)
Interest expense	(56,711)	(57,353)	(122,095)	(99,019)
Tax (expense) benefit	(888)	(2,897)	(1,776)	(3,650)
Total tax and other income (expense)	(61,245)	(60,550)	(128,781)	(102,536)
Net (Loss)	$ (1,038,976)	$ (1,115,360)	(1,487,565)	$ (2,767,554)
Income (loss) per share:				
Basic and fully diluted*	(0.0048)	(0.0057)	(0.0070)	$ (0.0141)
Weighted average common shares outstanding:				
Basic and fully diluted*	220,268,927	200,424,027	219,935,594	200,015,546

Statement of Operations Data	Year Ended December 31, 2008	2007	2006
Sales	$ 12,489,884	$ 10,146,379	$ 9,538,308
Cost of Sales	8,788,905	6,783,473	5,767,550
Gross Margin	3,700,979	3,362,906	3,770,758
Operating Expenses			
Research and development	3,366,518	2,365,412	1,279,239
Selling and marketing	2,128,625	1,920,164	1,191,800
General and administrative	2,299,685	1,718,627	1,560,278
Depreciation and amortization	510,133	374,078	276,989
Total operating expenses	8,304,961	6,378,281	4,308,306
Profit (Loss) from operations	(4,603,982)	(3,015,375)	(537,548)
Interest and other income (expense)	188	2,549	313
Foreign exchange (loss) gain	(24,216)	—	—
Interest expense	(260,977)	(241,692)	(179,019)
Legal settlement	—	96,632	—
Tax (expense) benefit	(5,212)	98,372	(3,700)
Total tax and other income (expense)	(290,217)	(44,139)	(182,406)
Net (Loss)	$ (4,894,199)	$ (3,059,514)	$ (719,954)
Income (loss) per share:			
Basic and fully diluted*	$ (0.0240)	$ (0.0176)	$ (0.0047)
Weighted average common shares outstanding:			
Basic and fully diluted*	207,710,498	185,263,660	173,254,715

* All outstanding warrants, options, and convertible debt are anti-dilutive, therefore basic and diluted earnings per share are the same for all periods.

Cash Flow Data	Year Ended December 31, 2008	2007	2006	Six Months Ended June 30, 2009 (Unaudited)	2008 (Unaudited)
Cash flows provided by (used in) operating activities	$(1,285,449)	$(3,295,900)	$ 120,053	$ (476,637)	$ (107,925)
Cash flows (used in) investing activities	(549,804)	(316,743)	(479,236)	(148,777)	(259,193)
Cash flows provided by financing activities	2,289,116	3,408,328	874,569	91,820	106,255

Balance Sheet Data	As of December 31, 2008	2007	2006	As of June 30, 2009 (Unaudited)	2008 (Unaudited)
Cash and cash equivalents	$ 818,719	$ 364,856	$ 569,171	$ 285,126	$ 103,993
Working Capital (deficiency)	(1,846,289)	966,658	69,766	(2,808,676)	(2,150,731)
Total Assets	6,221,897	6,967,254	5,013,263	4,351,101	5,939,483
Long-Term Liabilities	1,754,379	2,014,476	1,980,476	1,797,680	1,606,559
Accumulated (deficit)	(14,687,276)	(9,691,977)	(6,531,363)	(16,225,391)	(12,510,081)
Total Stockholders' equity (deficit)	(2,089,942)	423,236	(603,954)	(3,253,196)	(2,274,435)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of financial condition and results of operations in conjunction with the "Selected Financial and Other Data" and our financial statements and related notes appearing elsewhere in this prospectus. 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 prospectus. See the discussion under "Forward Looking Statements" beginning on page 24 of this prospectus.

Overview

We are engaged in the design, manufacture, marketing and sale of devices that are worn like eyeglasses and feature built-in video screens that enable the user to view video and digital content, such as movies, computer data, the Internet or video games. Our products (known commercially as Video Eyewear, but also commonly referred to as virtual displays, wearable displays, personal viewers, head mounted displays, or near-to-eye displays) are used to view high-resolution video and digital information primarily from mobile electronic devices (such as cell phones, portable media players, gaming systems and laptop computers) and from desktop computers. Our products provide the user a viewing experience that simulates viewing a large screen television or a desktop computer monitor.

Our Video Eyewear products feature high performance miniature display modules, low power electronics and related optical systems. We produce both monocular and binocular Video Eyewear devices that we believe are excellent solutions for many mobile computer or video viewing requirements. We focus on two markets: the consumer markets for gaming and mobile video and rugged mobile displays for defense and industrial applications. We also offer low-vision assist Video Eyewear products that are designed to assist and improve the remaining vision of many people suffering from macular degeneration.

Since our inception in 1997, we have derived the majority of our sales from fees paid to us under research and development contracts and related volume manufacturing services primarily of night vision display electronics as a sub-contractor to defense suppliers to the US government. Since 2005, we have devoted significant resources to the development and commercial launch of our industrial and consumer products. During 2008 and 2007, we derived 35.4% and 32.4%, respectively, of our sales from our consumer Video Eyewear products.

We believe our intellectual property portfolio gives us a leadership position in microdisplay electronics, ergonomics, packaging, motion tracking 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 financial statements and related notes appearing elsewhere in this prospectus. 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 financial statements, including the statement of operations, balance sheet, cash flow and related notes. Since future events and their impact cannot be determined with certainty, the actual results will inevitably differ from our estimates. Such differences could be material to the financial statements.

We believe that our application of accounting policies, and the estimates inherently required therein, are reasonable. These accounting policies and estimates are periodically reevaluated, and adjustments are made 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 financial statements included in this prospectus. In reading our financial statements, you should be aware of the factors and trends that our management

believes are important in understanding our financial performance. 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;
- valuation of intangible assets;
- revenue recognition;
- product warranty;
- stock-based compensation; and
- income taxes.

Valuation of Inventories

Inventory is stated at the lower of cost or market, with cost determined on a 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 lifecycles and estimated inventory levels. Purchasing practices, electronic component obsolescence, accuracy of sales and production forecasts, introduction of new products, product lifecycles, product support and foreign regulations governing hazardous materials are the 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, to production, to after-sale support. If actual demand, market conditions or product lifecycles differ from estimates, inventory adjustments to lower market values would result in a reduction to the carrying value of inventory, an increase in inventory write-offs and a decrease to gross margins.

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. 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. To date, no impairment on long-lived assets has been booked. Impairment losses in the future will be dependent on a number of factors such as general economic trends and major technology advances, and thus could be significantly different than historical results.

Valuation of Intangible Assets

We perform a valuation of intangible assets when events or circumstances indicate their carrying amounts may be unrecoverable. We have not impaired the value of certain intellectual property, such as patents and trademarks, which were valued (net of accumulated amortization) at $715,958 as of June 30, 2009, because management believes that its value is recoverable.

Revenue Recognition

Revenue from product sales is recognized in accordance with the SEC Staff Accounting Bulletin No. 104, *Revenue Recognition* Product sales represent the majority of our revenue. We recognize revenue from these product sales when persuasive evidence of an arrangement exists, delivery has occurred or services have been provided, the sale price is fixed or determinable, and collectability is reasonably assured. Additionally, we sell our products on terms which transfer title and risk of loss at a specified location, typically shipping point. Accordingly,

revenue recognition from product sales occurs when all factors are met, including transfer of title and risk of loss, which typically occurs upon shipment by us. If these conditions are not met, we will defer the revenue recognition until such time as these conditions have been satisfied. We collect and remit sales taxes in certain jurisdictions and report revenue net of any associated sales taxes. We also sell certain products through distributors who are granted limited rights of return for stock balancing against purchases made within a prior 90 day period, including price adjustments downwards on any existing inventory. The provision for product returns and price adjustments is assessed for adequacy both at the time of sale and at each quarter end and is based on recent historical experience and known customer claims.

Revenue from any engineering consulting and other services is recognized at the time the services are rendered. For our longer-term development contracts, which to date have all been firm, fixed-priced contracts, we recognize revenue on the percentage-of-completion method. Under this method income is recognized as work on contracts progresses, but estimated losses on contracts in progress are charged to operations immediately. To date, all of our longer-term development contracts have been less than one calendar year in duration. We generally submit invoices for our work under these contracts on a monthly basis. The percentage-of-completion is determined using the cost-to-cost method.

The accounting estimate related to revenue recognition is considered a “critical accounting estimate” because terms of sale can vary, and judgment is exercised in determining whether to defer revenue recognition. Such judgments may materially affect net sales for any period. Judgment is exercised within the parameters of GAAP in determining when contractual obligations are met, title and risk of loss are transferred, sales price is fixed or determinable and collectability is reasonable assured.

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, but can be 24 months in certain countries if required by law, such as in Europe. 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

Our board of directors approves grants of stock options to employees to purchase our common stock. Under SFAS No. 123 (revised 2004), *Share-Based Payment*, stock compensation expense, is recorded based upon the estimated fair value of the stock option at the date of grant. The accounting estimate related to stock-based compensation is considered a “critical accounting estimate” because estimates are made in calculating compensation expense including expected option lives, forfeiture rates and expected volatility. The fair market value of our common stock on the date of each option grant was determined based on the most recent cash sale of common stock in an arm’s length transaction with an unrelated third party. We engaged in at least one such transaction during each of our last four fiscal years. Expected option lives are estimated using vesting terms and contractual lives. Expected forfeiture rates and volatility are calculated using historical information. Actual option lives and forfeiture rates may be different from estimates and may result in potential future adjustments which would impact the amount of stock-based compensation expense recorded in a particular period.

Income Taxes

We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. Accordingly, 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 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 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 amounts have 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 in excess of the nil amount currently recorded, an adjustment of the valuation allowance would increase income to be recognized in the period such determination was made.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. As a result of the implementation of Interpretation No. 48, *Accounting for Uncertainty in Income Taxes- an interpretation of FASB Statement No. 109*, we recognize liabilities for uncertain tax positions based on the two-step process prescribed within the interpretation. 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.

Finally, any future recorded value of our deferred tax assets will be dependent upon our ability to generate future taxable income in the jurisdictions in which we operate. These assets consist of research credit carry-forwards, capital and net operating loss carry-forwards and the future tax effect of temporary differences between balances recorded for financial statement purposes and for tax return purposes. It will require future pre-tax earnings in excess of $13,200,000 in order to fully realize the value of our unrecorded deferred tax assets. If we were to sustain future net losses, it may be necessary to record valuation allowances against such deferred tax assets in order to recognize impairments in their estimated future economic value.

Key Performance Indicators

We believe that a key indicator for our business is the trend for the volume of orders received from customers, especially those orders related to night-vision electronic modules. During weak economic periods, customers' ability to forecast their requirements deteriorates causing delays in the placement of orders. Forward-looking visibility on customer orders is at an all time low. Our major night-vision electronics modules customers (Kopin and DRS Technologies, Inc.) are placing orders for product only when they have orders in hand from their governmental customer. Total shipments of night vision electronics module customers in 2008 amounted to $6,068,449, compared to $1,418,249 in 2007.

Comparison of Fiscal Years Ended December 31, 2008 and December 31, 2007

Sales. Our sales were $12,489,884 for the year ended December 31, 2008 compared to $10,146,379 for the year ended December 31, 2007. This represents a 23.1% increase for the year 2008 over the year 2007. Our sales from defense products increased to $6,397,221 or 51.2% of our total sales in 2008 versus $1,418,249 or 14.0% of total sales in 2007, an increase of $4,978,972 or 351.1%. The increase resulted primarily from new orders of night vision drive electronics from prime contractors and the introduction of our Tac-Eye® display product line in the fourth quarter of 2008. Sales from our defense-related engineering programs decreased to $1,548,703 or 12.4% of total sales versus $5,445,375 or 53.7% of total sales in 2007. The large decrease in fiscal 2008 was the result of the start and completion of a $4,300,000 engineering program in late 2007. Consumer Video Eyewear product sales increased to $4,451,121 or 35.64% of total sales for the year ended December 31, 2008 compared to $3,282,755 for our 2007 year or 32.4% of 2007's total sales. This 35.6% sales dollar increase resulted from a broader Video Eyewear product line and increased distribution in the United Kingdom and Japan. Low-vision assist sales,

consisting mainly of sales of low-vision assist products, were $92,839 or 0.7% of total sales in fiscal 2008 versus none in fiscal 2007.

Cost of Sales and Gross Margin. Gross margin increased to $3,700,979 for fiscal 2008 from $3,362,906 for fiscal 2007, an increase of $338,073 or 10.1%. As a percentage of net sales, gross margin decreased to 29.6% for fiscal 2008 compared to 33.1% for fiscal 2007. This reduction was the result of changes in our revenue mix and related margins. Generally, we earn a higher gross margin on engineering only programs as compared to the gross margin on products, in which we incur cost of goods or volume production costs. Engineering services revenues decreased to 12.4% as a percentage of total sales in 2008 versus 53.7% of total sales in 2007, resulting in the majority of the reduction in overall gross margin in 2008 versus fiscal 2007.

Research and Development. Our research and development expenses in 2008 increased by $1,001,106, or 42.3%, to $3,366,518 in fiscal 2008 versus $2,365,412 in 2007. This was due to increased internal development activities and less direct support of our research under government funded engineering programs. Expenses we incur under government funded engineering programs are included in costs of goods sold.

Selling and Marketing. Selling and marketing expenses were $2,128,625 for fiscal 2008 as compared to $1,920,164 for fiscal 2007, an increase of $208,461 or 10.9%. Despite the increase in absolute dollars, as a percentage of total sales, the selling and marketing expenses decreased to 16.9% of sales for fiscal 2008 as compared to 18.9% for fiscal 2007. The absolute dollar increase was primarily due to increased advertising expenses along with increased marketing support paid out to our expanded consumer products resellers and the introduction of in-store point of purchase displays with US resellers.

General and Administrative. General and administrative expenses were $2,299,685 for fiscal 2008 as compared to $1,718,627 for fiscal 2007, an increase of $581,058 or 33.8%. The higher general and administrative related to increases in staff and personnel costs, and increased legal expenses.

Depreciation and Amortization. Our depreciation and amortization expense increased by $136,055, or 36.4%, to $510,133 in 2008 versus $374,078 in 2007. The increase was related to increased depreciation on new capital expenditures in 2008 and 2007.

Other Income (Expense). Total other expenses, consisting primarily of interest expense, was $285,005 in 2008 versus $142,511 for 2007. The increase in expenses was primarily attributable to an offsetting legal settlement received during 2007 in the amount of $96,632.

Provision (Benefit) for Income Taxes. The provision for income taxes for the year ended December 31, 2008 was $5,212 versus a net benefit of ($98,372) in 2007. The 2007 net benefit includes our accrual of $130,130 in New York State tax credits for our research and development activities. The balance of each year's tax provision was primarily for franchise taxes payable to the State of Delaware, our state of incorporation. These taxes were $5,212 for 2008 and $31,758 for 2007. This decrease was a result of the 8-for-1 split of our common stock in July 2008.

Net (Loss) and (Loss) per Share. Our net loss was $(4,894,199) or $(0.0240) per share in 2008, an increased loss of $(1,834,685), or (60.0)%, from $(3,059,514) or $(0.0176) per share in 2007.

Comparison of Fiscal Years Ended December 31, 2007 and December 31, 2006

Sales. Our sales were $10,146,379 for the year ended December 31, 2007 compared to $9,538,308 for the year ended December 31, 2006. This represents a 6.4% increase for the year 2007 over the year 2006. Our sales from defense products decreased to $1,418,249 or 14.0% of total sales in 2007 versus $4,888,243 or 51.2% of total sales in 2006, a decrease of $3,469,994. The decrease resulted from reduced orders from the prime defense contractor caused by technical problems in other areas of their supply chain. Sales from our defense related engineering programs increased to 53.7% of total sales or $5,445,375 versus $2,627,442 or 27.5% of total sales in 2006. This large increase was the result of a new $4,300,000 government research and development program in 2007. Consumer Video Eyewear product sales increased to $3,282,755 or 32.4% of total sales for the year ended December 31, 2007 compared to $2,022,623 or 21.2% of sales for our 2006 fiscal year. This 62.3% increase in dollar sales resulted from the introduction of three new Video Eyewear models in 2007 and the commencement of our European sales activities in late 2007.

Cost of Sales and Gross Margin. Gross margin decreased to $3,362,906 for fiscal 2007 from $3,770,758 for fiscal 2006, a decrease of $407,852 or 10.8%. As a percentage of net sales, gross margin decreased to 33.1% for fiscal 2007 compared to 39.5% for fiscal 2006. This reduction was the result of changes in our revenue mix and related margins. Generally, we earn a higher gross margin on our defense products as compared to the gross margin on consumer products, and with the introduction of three new consumer Video Eyewear products our margins decreased. As defense product sales as a percentage of our total sales decreased to 14.0% in 2008 versus 51.2% in 2006 our overall margins decreased.

Research and Development. Our research and development expenses in 2007 increased by $1,086,173 or 84.9%, to $2,365,412 in fiscal 2007 versus $1,279,239 in 2006. This was due to increases in the number of our research and development personnel and the lease of additional space dedicated to this function.

Selling and Marketing. Selling and marketing expenses were $1,920,164 for fiscal 2007 as compared to $1,191,800 for fiscal 2006, an increase of $728,364 or 61.1%. The increase resulted from the preparatory marketing and advertising launch expenses by three new consumer Video Eyewear products, the establishment of our first print advertising programs and increased trade show costs to promote our new Video Eyewear products.

General and Administrative. General and administrative expenses were $1,718,627 for fiscal 2007 as compared to $1,560,278 for fiscal 2006, an increase of $158,349 or 10.1%. The increase was mainly attributable to increased staffing and legal expenses.

Depreciation and Amortization. Our depreciation and amortization expense increased by $97,089, or 35.1%, to $374,078 in 2007 versus $276,989 in 2006. The increase was related to increased depreciation provisions on new capital expenditures in 2007 and full year's provision on our 2006 additions.

Other Income (Expense). Total other expenses, consisting primarily of interest expense, was $142,511 in 2007 versus $178,706 in 2006. Our borrowing costs were $62,673 higher in 2007 than in 2006 but our 2007 borrowing costs were offset by $96,632 in miscellaneous income related to the settlement of a legal dispute.

Provision (Benefit) for Income Taxes. The provision for income taxes for the year ended December 31, 2007 was a net benefit of $98,372 versus an expense of $3,700 for 2006. The 2007 benefit includes our accrual of $130,130 in New York State tax credits for our research and development activities. The balance of each year's tax provision was primarily attributable to franchise taxes payable to the State of Delaware, our state of incorporation. These taxes were $31,758 for 2007 and $3,700 for 2006. The large increase was a direct result of the 7-for-1 reverse stock split that took place in 2007.

Net (Loss) and (Loss) per Share. Our net loss was $(3,059,514) or $(0.0171) per share in 2007, an increase of $(2,339,560) from $(719,954) or $(0.0047) per share in 2006.

Comparison of Three Months Ended June 30, 2009 and June 30, 2008

Sales. Our sales were $2,063,733 for the three months ended June 30, 2009 compared to $3,087,338 for the three months ended June 30, 2008. This represents a (33.2%) decrease for the 2009 period over the comparable 2008 period. Our sales from defense production programs decreased to $1,179,146 or 57.1% of total sales for the 2009 period from $2,442,817 or 79.1% of sales in the comparable 2008 period, a decrease of $(1,263,672) or (51.7%). The decrease resulted directly from our early completion during the three months ended March 31, 2009 of a large order and fewer resulting follow on sales versus the prior year when a production order spanned most of the same second quarterly period. These orders are normally completed in 90 to 120 days once deliveries commence, so any given calendar quarter can contain anywhere from zero to three months of shipments resulting in substantial revenue variations. Sales from our defense related engineering services programs decreased slightly to $116,865 or 5.7% of sales for the 2009 period versus $127,006 or 4.1% of total sales in the comparable 2008 period. Engineering services were slower in 2009 as we were still in transition between new major programs. Consumer Video Eyewear product sales increased to $764,629 or 37.1% of total sales for the three months ended June 30, 2009 compared to $516,214 or 16.7% of total sales for the same period in 2008. This 48.1% increase in revenues was primarily due to our increased sales of Video Eyewear products in Europe and Japan as compared to 2008. Low-vision assist sales for the three months ended June 30, 2009 were $3,094 versus $1,301 in the prior year's period and were in both periods less than 0.1% of revenues.

Cost of Sales and Gross Margin. Gross margin decreased to $672,914 for the three-months ended June 30, 2009 from $1,215,677 for three months ended June 30, 2008, a decrease of $(542,763) or (44.6%). As a percentage of net sales, gross margin decreased to 32.6% for 2009 period compared to 39.4% for the comparable 2008 period. Gross margins for the 2008 period were higher than for the similar period in 2009 due to increased margins earned on defense product sales which were 79.1% of sales and only 57.1% in the 2009 period. This change in our revenue mix and their related lower gross margins on Consumer Video Eyewear resulted in the decrease in the 2009 margin as we generally earn a higher gross margin on engineering services and our defense product sales as compared to the gross margin on products.

Research and Development. Our research and development expenses in the three months ended June 30, 2009 were $428,737 versus $1,224,265 in the comparable 2008 period, a decrease of $(795,528) or (65.0)%. This decrease was due to lower staffing levels and a decreased use of external contractors for development work versus 2008.

Selling and Marketing. Selling and marketing expenses were $520,257 for the three months ended June 30, 2009 as compared to $483,695 for the comparable 2008 period, an increase of just $36,562. As a percentage of total sales, the selling and marketing expenses increased to 25.1% of sales for the three month period in 2009 as compared to 15.5% for same period in fiscal 2008 which is reflective of our previously mentioned change in revenue mix and decreased total sales between the comparable quarters. Consumer Video Eyewear sales require higher sales and marketing expenses over defense product sales consisting primarily of night vision display electronics.

General and Administrative. General and administrative expenses were $534,142 for the three months ended June 30, 2009 as compared to $438,831 for the comparable 2008 period, an increase of $95,311 or 21.7%. The higher general and administrative expenses are attributable to increases in accounting fees related to our commencement of external accountant reviews of our quarterly results and increased wage costs as compared to same quarterly period in 2008.

Depreciation and Amortization. Our depreciation and amortization expense increased by $43,813, or 35.4%, to $167,509 in the three months ended June 30, 2009 versus $123,696 in the comparable 2008 period. The increase is attributable to increased depreciation provisions on new capital expenditures and patent investments made in fiscal 2008.

Other Income (Expense). Interest expense, net of interest income and foreign exchange adjustments, was $60,357 in the three months ended June 30, 2009 versus $57,653 for the comparable 2008 period. The increase represents increased borrowings and higher interest rates on a note payable.

Provision (Benefit) for Income Taxes. The provision for income taxes was for franchise taxes to Delaware, our state of incorporation. Such income taxes for the three months ended June 30, 2009 were $888 and $2,897 for the comparable 2008 period.

Net (Loss) and (Loss) per Share. Our net loss was $(1,038,976) (or $(0.0048) per share) in the three months ended June 30, 2009, a decrease from an overall loss of $(1,115,360) or $(0.0057) per share for the same quarter in 2008.

Comparison of Six Months Ended June 30, 2009 and June 30, 2008

Sales. Our sales were $5,082,087 for the six months ended June 30, 2009 compared to $4,807,982 for the six months ended June 30, 2008. This represents a 5.7% increase for the 2009 period over the comparable 2008 period. Our sales from defense production programs were $2,633,300 or 51.8% of total sales for the 2009 period versus $3,300,428 and 68.6% of total sales in the comparable 2008 period, a decrease of $(667,128). As a percentage of total revenues this category of product sales was 51.8% of sales for the first six months of 2009 versus 68.6% of sales for the same period in 2008. The decrease resulted directly from decreased orders for our night vision display drive electronics customer due to timing issues, which as explained previously can vary significantly from quarter to quarter. Offsetting this reduction was a continued strengthening of our Tac-Eye product line, which had minimal sales in the comparable 2008 period. Sales from our defense related engineering service programs increased to $565,355 or 11.1% of total sales for the 2009 period versus $317,994 in the comparable 2008 period. The majority of this $247,361 increase occurred in the first quarter of 2009 over the same period in 2008. Overall engineering

program revenues rose to 11.1% of total sales as compared to 6.6% in the first six months of 2008. Consumer Video Eyewear product sales increased to $1,865,815 or 36.7% of total sales for the six months ended June 30, 2009 as compared to $1,182,859 or 24.6% of total sales for the same period in 2008. This 57.7% increase was entirely due to increased sales in Europe and Japan as compared to the same period in 2008. Low-vision assist sales for the six months ended June 30, 2009 were $17,617 versus just $6,701 for the same period in 2008, both less than 0.3% of our overall revenues in each year's period.

Cost of Sales and Gross Margin. Gross margin increased to $1,860,226 for the six-month ended June 30, 2009 from $1,449,243 for six months ended June 30, 2008, an increase of $410,983 or 28.4%. As a percentage of total net sales, overall gross margin increased to 36.6% for 2009 period compared to 30.1% for the comparable 2008 period. Gross margins for the 2008 period were lower than for the similar period in 2009 due to product clearance activities, when an older product model was being phased out and larger reseller discounts were being offered to assist its sales. Additionally, our cost reductions improved margins for the 2009 period.

Research and Development. Our research and development expenses in the six months ended June 30, 2009 were $945,897 versus $1,960,982 in the comparable 2008 period, a decrease of $(1,015,085) or (51.8%). This was due to staff reductions made in late 2008 and a decreased use of external contractors in the 2009 period versus 2008.

Selling and Marketing. Selling and marketing expenses were $976,041 for the six months ended June 30, 2009 as compared to $933,257 for the comparable 2008 period, an increase of $42,784. As a percentage of total sales, the selling and marketing expenses decreased slightly to 19.1% of sales for the six month period in 2009 as compared to 19.3% for same period in fiscal 2008.

General and Administrative. General and administrative expenses were $990,729 for the six months ended June 30, 2009 as compared to $972,630 for the comparable 2008 period, an increase of $18,099 or 1.9%. The higher expenses are attributable to increased accounting and audit services involved in our changeover of audit firms, external accountant reviews of our quarterly results and higher wage costs against the same period in 2008.

Depreciation and Amortization. Our depreciation and amortization expense increased by $58,951, or 23.8%, to $306,343 in the six months ended June 30, 2009 versus $247,392 in the comparable 2008 period.

Other Income (Expense). Interest expense, net of interest income and foreign exchange adjustments, was $127,005 in the six months ended June 30, 2009 versus $98,886 for the comparable 2008 period. The increase represents increased borrowings and higher interest rates on a note payable.

Provision (Benefit) for Income Taxes. The provision for income taxes was for franchise taxes to Delaware, our state of incorporation. Such income taxes for the six months ended June 30, 2009 were $1,776 and $3,650 for the comparable 2008 period.

Net (Loss) and (Loss) per Share. Our net loss was $(1,487,565) (or $(0.0070) per share) in the six months ended June 30, 2009, an improvement of $1,279,988, or 46.2%, from the larger loss of $(2,767,554) or $(0.0141) per share in the comparable 2008 period.

Liquidity and Capital Resources

As of June 30, 2009, we had cash and cash equivalents of $285,126, a decrease of $533,593 from $818,719 as of December 31, 2008.

Our cash requirements are primarily for research and development, product tooling, and working capital. Historically, we have met these requirements through capital generated from the sale and issuance of our common equity securities, convertible debt and notes payable to private investors, cash flow provided by operations and our revolving bank lines of credit.

Operating Activities. Cash (used in) operating activities was $(1,285,449) in fiscal 2008 and $(3,295,900) in fiscal 2007. Changes in operating assets and liabilities, excluding cash, provided (used) cash were $2,785,425 in fiscal 2008 and $(800,177) in fiscal 2007. The decreases in our accounts receivable by December 31, 2008 of $1,494,613 along with a $733,691 increase in accounts payable and customer deposits of $683,040 primarily resulted in this cash flow improvement in 2008 over 2007. Our reduced accounts receivable year over year was due

to the completion of a defense product production program in December 2008, whereas in 2007 a similar program was in mid-stream at December 31, 2007 along with the larger receivables from the final deliveries and billings on a large 2007 engineering program, including the programs holdback. To accelerate our cash collections we offer early payment allowances to certain customers on our defense production programs. In both 2008 and 2007, those customers took the early payment discounts we offered. We intend to continue to offer early payment discounts as long as we continue to operate with a working capital deficit. On one defense production program, early payment discounts reduced our working capital investment in accounts receivable by an average of $800,000. Cash (used in) operating activities was $(476,637) and $(107,925) for the six-month periods ended June 30, 2009 and 2008, respectively. Changes in operating assets and liabilities, excluding cash, provided cash were $614,521 and $2,322,088 for the six-month periods ended June 30, 2009 and 2008, respectively. In both these periods, the reductions in accounts receivable from the seasonally higher December 31st balances were the major providers of cash. The 2009 period's reduction versus the same period in 2008 resulted mainly from a $(1,089,159) decrease in accounts payable since December 31, 2008, a direct result of the normal seasonal slow-down in parts of our business. Offsetting this decrease was an increase in customer deposits of $451,399 over those as at December 31, 2008 attributable to the advance component purchasing requirements for a large order for special night vision electronics that commenced production in September 2009. We normally request an advance from customers placing large orders for special goods. If in the future we are unable to obtain such advance deposits, our liquidity and ability to support large orders would decrease.

Investing Activities. Cash used in investing activities was $549,804 in fiscal 2008 and $316,743 in fiscal 2007 and $148,777 and $259,193 for the six-month periods ended June 30, 2009 and 2008, respectively. Cash used for investing activities in fiscal 2008 related primarily to production tooling and computer software equipment additions of $424,166 and in the six-month period ended June 30, 2009 related primarily to tooling acquisitions of $81,837 versus $193,126 for the same 6 month period in 2008. The costs of registering our intellectual property rights, included in the investing activities totals described above were $125,638 in fiscal 2008 and $136,433 in fiscal 2007 and $66,940 and $66,067 for the six-month periods ended June 30, 2009 and 2008, respectively.

Financing Activities. Cash provided by financing activities was $2,289,116 in fiscal 2008 and $3,408,328 in fiscal 2007 and $91,820 and $106,255 for the six-month periods ended June 30, 2009 and 2008, respectively. We sold shares of our common stock for aggregate gross proceeds of $2,138,646 in 2008 and $3,792,362 in 2007 and $300,000 in the six-month period ended June 30, 2009 in private placements offerings. In the six-month period ended June 30, 2008 we sold shares of our common stock for aggregate gross proceeds of $16,697 upon exercise of stock options and received $13,586 from the exercise of warrants.

Capital Resources. As of December 31, 2008, we had a cash balance of $818,719. As of June 30, 2009, we had a cash balance of $285,126. We had $123,952 available under our bank lines of credit (total drawings as of June 30, 2009 were $88,548). The credit lines are with two banks, are payable on demand and secured by the personal guarantee of our President and Chief Executive Officer, Paul J. Travers. The bank credit agreements contain various restrictions on indebtedness, liens, guarantees, redemptions, mergers, acquisitions or sale of assets, loans, transactions with any affiliates, and investments. They also prohibit us from declaring and paying cash dividends without the bank's prior consent.

On September 19, 2006, we borrowed $500,000 from an individual lender and issued a convertible promissory note in the principal amount of $500,000 in evidence of the loan. Interest on the outstanding principal amount of the note accrues at the annual rate of 10.0%. The outstanding principal amount of the note, together with all accrued and unpaid interest thereon, is convertible at the option of the holder into shares of our common stock at the rate of $0.2667 per share. The outstanding principal amount of the note together with all unpaid accrued interest thereon was due and payable on January 31, 2009. As of January 31, 2009, the interest accrued and unpaid on the note was $118,493. Since January 31, 2009 interest on the principal amount of the note has accrued at the annual rate of 18.0% and we have made monthly payments of interest only. As of the date of this prospectus, no demand for immediate payment of the principal amount of the note has been made. Such a demand would have a negative impact on our liquidity and ongoing operations. As the conversion price of the note is greater than our expected maximum offering price, we intend to pay the outstanding principal amount of the note in full, together with all interest accrued and unpaid thereon, from the proceeds of this offering.

In August and September 2009, we borrowed an aggregate amount of $200,000 from three individual lenders, including $50,000 from Mr. Paul Churnetski, our Vice President of Quality Assurance and the beneficial owner of approximately 9% of our issued and outstanding common stock. These loans bear interest at an annual rate of 18.0% and are due and payable on October 31, 2009. We borrowed these funds to finance part of our working capital investment for a defense order in process. We are negotiating to borrow an additional $100,000 from one or more individual lenders on the same terms and conditions. We intend to repay all these loans from revenues from the receivables collections from that order or out of the proceeds from this offering if the closing occurs prior to the maturity date.

Our cash requirements depend on numerous factors, including new product development activities, our ability to commercialize our products, their timely market acceptance, selling prices and gross margins, and other factors. We expect to carefully devote capital resources to continue our development programs, hire and train additional staff, expand our research and development activities, new product marketing and increased inventory levels. Assuming we are able to continue to increase our sales and maintain our planned gross margins, we anticipate that we will also experience growth in our operating expenses for the foreseeable future. Our future net operating losses, product tooling expenses, and related working capital investments will be the principal use of our cash. In particular, we expect that potentially significant amounts of working capital investments in accounts receivable and inventories that are not offset by corresponding increases in accounts payable will use cash with our planned growth.

We anticipate, based on our internal forecast and assumptions relating to our operations (including, among others, assumptions regarding our working capital requirements, the progress of our research and development efforts and Video Eyewear product sales and gross margins) that, taking into account the minimum anticipated proceeds of the sale of our securities pursuant to this prospectus, we will have sufficient cash to meet our working capital and other cash flow requirements for at least the next 12 months. In the event we do not close this offering in the near future, we will have to make adjustments in our operating plans and scale back on new product development as our net operating activities still are consuming cash. Many of our proposed new products would be placed on hold and staff reductions across the company would be required. In parallel with such spending reductions, management would begin an active search for private sources of financing, including debt and equity offerings to reduce our working capital deficiency. If we were unsuccessful in obtaining alternative financing by December 31, 2009, management would have to reassess its operating plans for fiscal 2010.

The recent global economic crisis has caused disruptions and extreme volatility in global financial markets, increased rates of default and bankruptcy, and has impacted consumer spending levels. These macroeconomic developments could adversely affect our business, operating results or financial condition. Current or potential customers, including suppliers to the US government, may delay or decrease spending on our products and services as their business and/or budgets are impacted by economic conditions. The inability of current and/or potential customers to pay us for our products and services may adversely affect our earnings and cash flows.

Current Financial Position

As of September 30, 2009 we had approximately $181,197 in cash and cash equivalents and we had $28,210 in available bank credit lines. In August and September 2009 we borrowed an aggregate amount of $200,000 from three individual lenders, including $50,000 from Mr. Paul Churnetski, our Vice President of Quality Assurance and the beneficial owner of approximately 9% of our issued and outstanding common stock. These loans bear interest at an annual rate of 18.0% and are due and payable on October 31, 2009. We borrowed these funds to finance part of our working capital investment for a defense order in process. We are negotiating to borrow an additional $100,000 from one or more individual lenders, on the same terms and conditions. We intend to repay all these loans from revenues from the receivables collections from that order or out of the proceeds from this offering if the closing occurs prior to the maturity date.

We had a working capital deficit of $2,808,676 as of June 30, 2009 and this deficit will increase by a further amount since that date due to our expected operating losses in our third quarter of fiscal 2009. Our ability to continue operations is currently reliant on the extended support of certain of our major trade suppliers, several of whom have granted us extended credit terms on our accounts payable. Further we have a $500,000 note payable that was due as of January 31, 2009 that has not been repaid as of the date of this prospectus. The lender to date has not

demanded repayment of this note nor have they agreed to any formal extension. In the event the note holder or a major trade supplier demanded repayment of their overdue accounts payable before the successful closing of this offering, management would be forced to look immediately for other financing resources, which may or may not be available, regardless of terms. If such funds were not readily available management would have to look at restructuring the company, reducing our operations and/or the sale of a portion or all of the company's assets. As a result without the successful closing of this offering our future as an operating entity would be jeopardy.

In May 2009, we were awarded a contract to deliver our Tac-Eye LT® display system to the Air Force's Battlefield Airman Program. The system has been developed over the last five years with support from various US military commands including the Air Force Research Laboratory, Natick Soldier Center and US Special Operations Command (USSOCOM). If the Air Force exercises all of its options under the contract, our revenues under the contract could equal $2,000,000 over the next 19 months.

In October 2008, we received approval of a $640,000 government engineering program. We anticipate that the contract relating to this award will be executed and our work on the program will commence in fall 2009. We expect the program to be completed in nine months.

As of September 30, 2009 we had approximately $1,287,000 in purchase orders for our defense-related products and night vision drive electronics. Those purchase orders are generally non-cancelable. Backorders for our consumer Video Eyewear products as of September 30, 2009 were $197,000, which is normal for this time of the year for our consumer product sales along with customer anticipation regarding are fall new product releases. We had orders totaling $334,000 for our Tac-Eye Video Eyewear products as of September 30, 2009. We have an engineering program in progress with eventual gross billings of $336,000 which is expected to be completed by November 2009. Since June 30, 2009, our inventory and accounts payable have not changed materially but we expect them to increase during the remainder of 2009 as a result of the seasonal ramp-up for our consumer products, subject to the continued extended support of our suppliers.

We believe that if we succeed in raising the minimum gross proceeds from this offering, we will achieve additional growth in sales of our consumer Video Eyewear products and that our defense products should contribute to revenue growth for the remainder of 2009 and beyond. Subject to the closing of this offering, we also anticipate that we will continue to experience increases in our sales and marketing, and general operating expenses throughout the remainder of 2009 and in 2010 but that they should not grow as a percentage of overall sales.

BUSINESS

Company Overview

We are engaged in the design, manufacture, marketing and sale of devices that are worn like eyeglasses and feature built-in video screens that enable the user to view video and digital content, such as movies, computer data, the Internet or video games. Our products (known commercially as Video Eyewear but also commonly referred to as virtual displays, wearable displays, personal viewers, head mounted displays, or near-to-eye displays) are used to view high-resolution video and digital information from mobile electronic devices, such as cell phones, portable media players, gaming systems and laptop computers. Our products provide the user with a viewing experience that simulates viewing a large screen television or a desktop computer monitor that can be viewed practically anywhere, anytime.

Our Video Eyewear products feature high performance miniature display modules, low power electronics and related optical systems. We produce both monocular and binocular Video Eyewear devices that we believe are excellent solutions for uses including many mobile computer, mobile internet devices (MID) or video viewing requirements, including general entertainment applications. We focus on two markets: the consumer markets for gaming and mobile video and rugged mobile displays for defense and industrial applications. We also offer low-vision assist Video Eyewear products that are designed to assist and improve the remaining vision of many people suffering from macular degeneration.

Owners of mobile display devices increasingly want to use them to view high-resolution, full color content. The displays currently used in these mobile devices do not work well for this purpose because they are either too small, which makes it extremely difficult for the human eye to view the detail of the images that they display, or they are too large, making the device heavier, larger and difficult to carry. Recently, some mobile devices, like the iPhone, have employed a touch screen with software capable of magnifying or zooming in on a small portion of the image. We believe that many consumers consider this solution unsatisfactory because it is not like their desktop computer viewing experience and they find it difficult to navigate touch screens and to find information on the portion of the image being viewed.

In contrast, our Video Eyewear products enable users of many mobile devices to effectively view the entire screen on a small, eyeglass-like device. They can be used as a wearable replacement for any television or desktop computer monitor in almost any environment. Our products employ microdisplays that are smaller than one-inch diagonally, with some as small as one-quarter of an inch. They can display an entire, detailed image with resolution of up to 1280×720 pixels (High Definition or HD). The images on the microdisplay are viewed through proprietary magnifying optics that are usually designed by us and incorporated into our Video Eyewear products. Using these optics and displays, our Video Eyewear products provide a virtual image that appears to be similar to the image on a full size computer screen from a normal desktop working distance or the image on a large flat panel television from normal home TV viewing distance. For example, when magnified through our optics, a high-resolution 0.44-inch diagonal microdisplay can provide a viewing experience comparable to that on a 62-inch diagonal television screen viewed at nine feet.

Overall Strategy

Our goal is to establish and maintain a leadership position as a worldwide supplier of Video Eyewear and virtual imaging technology solutions. We intend to offer our technologies across major markets, platforms and applications. We will strive to be an innovator in designing virtual display devices that enable new mobile video viewing and general entertainment applications.

To maintain and enhance our position as a leading provider of virtual display solutions, we intend to:

- improve brand name recognition;
- provide excellent products and service;
- develop products for large markets;
- broaden and develop strategic relationships and partnerships;

- promote and enhance development of third party software that can take advantage of our products;
- expand market awareness for Video Eyewear, including use for Virtual Reality and Augmented Reality;
- obtain and maintain market leadership and expand customer base;
- maintain and exploit cost advantage;
- extend our proprietary technology leadership;
- enhance and protect our intellectual property portfolio;
- establish multiple revenue sources;
- continue to invest in highly qualified personnel;
- build and maintain strong design capabilities; and
- leverage our outsourcing model.

The Market

We believe that there is growing demand for mobile access to high-resolution content in several major markets. Our business focuses on the consumer mobile entertainment and gaming markets and the industrial and defense markets. The demand for personal displays in these markets is being driven by such factors as:

- Increasing use of the Internet in all aspects of society and business, which is increasing demand for Internet access "anywhere, anytime".
- Low cost wireless networks, with significantly increased bandwidths and improved compression of digital media, continue to evolve. They now allow users to view television or access the Internet on mobile devices. However, the relatively lower resolution and larger size of the displays currently used in these mobile devices do not allow the users to take full advantage of the high-resolution content available to them. We believe that our Video Eyewear products are well suited for this purpose.
- Increased spending by consumers on mobile entertainment devices such as iPods and cellular telephones. We expect that full-featured, cellular handsets with video capabilities will become more widely available and that a single handset will replace today's separate telephone, PDA, digital camera, handheld game player and MP3 music player. Our Video Eyewear products can provide viewable high-resolution mobile displays for users of these merged devices, with better viewing capability and higher detailed resolution than the small screens on existing mobile devices.
- Industrial, defense and security sectors are employing mobile communications, sensors and surveillance devices that are light, durable and easy to use but require displaying their high-resolution content on an external device and often in a hands-free way. Our wearable Video Eyewear products can be ideal for this and will allow a user their physical mobility.
- Video gaming on PCs and consoles continues to grow in North America and around the world. We believe that our Virtual Display technologies will significantly increase user satisfaction with gaming applications by engaging the user through the use of stereoscopic imagery and interactive head tracking. Our Virtual Reality and Augmented Reality Video Eyewear are designed to provide this capability.
- The widening distribution of new three dimensional (3D) movies and other 3D content in North America is creating a need for a method to play this content outside movie theaters. We believe that Video Eyewear, with its inherent dual display design, is well suited for the playback of 3D content. Stereoscopic 3D video playback on Video Eyewear also avoids many of the negative issues commonly encountered by shutter, polarized or color anaglyph glasses used in competing technologies and allows the user to view 3D content without purchasing new computer or television equipment.
- People with low-vision problems require devices to magnify and capture images that they wish to see and to display them in a manner that they can view with their remaining vision. Our Video Eyewear, with the

addition of a camera and digital signal processing in a single device, can provide this capability to many people suffering from certain types of vision problems.

Target Markets

Our target markets and applications by major sector are:

Consumer

Entertainment and Internet. We believe that there is an increasing demand for convenient, high-resolution, 3D displays to view content such as movies, entertainment and the Internet in a mobile environment.

Gaming. We believe that there is a need for high-resolution, interactive, stereoscopic 3D display devices for use with desktop computers, consoles and other gaming products. We believe that gaming on modern mobile devices with small, direct view screen is not a satisfactory experience for many consumers. Our Video Eyewear products are designed to significantly enhance a consumer's experience by providing larger, high-resolution images with stereoscopic 3D capabilities. We believe that there is also a demand for display devices that enable the user to simulate and experience movement within a three-dimensional environment when using either gaming consoles or mobile devices. We anticipate that Virtual Reality (VR) (which allows a user to interact with a computer-simulated environment, whether that environment is a simulation of the real world or an imaginary world) and Augmented Reality (AR) (which combines real-world and computer-generated data in real time) will become increasingly popular entertainment applications. Both VR and AR are difficult to implement using traditional desktop computer monitors and televisions.

Industrial and Defense

The US government requires display devices for mobile and hands-free viewing of computer and mapping information, remote viewing of sensor data, and remote viewing of transmissions from targeting systems. These applications currently include:

- Night vision and thermal sighting systems;
- Unmanned vehicle and robotic systems; and
- Training and simulation systems, including AR Video Eyewear.

These systems typically are required to provide detailed, high-resolution images, with limited power consumption and low external light emission, and to be durable.

Our Video Eyewear products are also used for a number of industrial applications, including as remote camera displays and wearable computer displays, for viewing of industrial thermal signature systems and for providing hands-free access to manuals and other required information in remote and in-field maintenance servicing.

Low-vision Assist

We believe that our Video Eyewear products may provide solutions for patients suffering from certain types of visual handicaps. Our low-vision assist products are designed to assist patients suffering from macular degeneration by signal processing and re-focusing an integrated camera image into the areas of the retina that are not affected by the patient's macular degeneration.

In the United States, macular degeneration in older people is the leading cause of loss of sight. As an indication of the size of the low-vision assist market, according to US National Eye Institute, there are currently over 1,800,000 Americans suffering from some form of degenerative low-vision disease with an additional 200,000 being diagnosed annually.

Products

We believe we provide the broadest range of consumer Video Eyewear product offerings available in the market and that our products contain the most advanced electronics and optics for their target markets and uses. Our products include:

Binocular Video Eyewear Products

The features of our binocular Video Eyewear products, including their resolution and apparent display size, microphones, tracking devices and support of three-dimensional viewing are designed to suit consumer applications. Our binocular Video Eyewear products contain two microdisplays, a separate display for each eye, typically mounted in a frame attached to eyeglass style-temples. These products enable mobile and hands-free private viewing of video content on screens that simulate home theater-sized screens. Headphones are built into the temples so that users can listen to accompanying audio in full stereo. They can be employed as mobile high-resolution displays with products such as portable DVD players, laptop computers, MIDs, cellular phones with video output capability, and personal digital media/video players (video iPods).

For the consumer markets, we currently produce four binocular Video Eyewear products, all of which support 3D applications. Each has a different apparent display size and native resolution. They are:

- AV230 XL — QVGA (320x240 three-color pixels) resolution and simulating a 44-inch screen at nine feet.
- AV310 widescreen — WQVGA (420x240 three-color pixels) resolution and simulating a 52-inch screen at nine feet.
- AV920 — VGA (640x480 three-color pixels) resolution and simulating a 62-inch screen at nine feet.
- VR920 — VGA (640x480 three-color pixels) resolution, simulating a 62-inch screen at nine feet, designed to plug into a computer's USB and video ports, and containing our proprietary three degrees of freedom head tracking technology, which enables the user to look around the environment being displayed by simply moving his or her head. A microphone allows the user to communicate with others. We expect those features to be of particular interest to users playing games using the VR920, but they also can be used in commercial 3D applications and for exploring Internet virtual worlds like Second Life. The VR920 is currently compatible with over 80 titles that work with it out of the box, including popular games such as Microsoft's Flight Simulator X and World of Warcraft. We currently have over 1000 software developers' kits being used in applications from college research programs to commercial developers to develop additional titles for the VR920. With the addition of a clip-on camera which we are currently tooling the VR920 can also used in AR applications.

We sell our current binocular products into the consumer marketplace under the brand iWear®. At the Consumer Electronics show in January 2009 we introduced our first sunglass styled Video Eyewear product that we will be selling under the Wraptm brand. We plan to introduce two versions of our Wrap optics, including one that will both allow the user to see through to the real world when the display is off or be just partially transparent when the display is on. The first version will not be see-through and we expect it will be introduced by October 2009. We anticipate that by spring 2010 we will be offering a second version with see-through optics and a higher display native resolution that will accept HD inputs and support AR applications and at the same time be backwards compatible to all the VR920 gaming applications already written. We also anticipate that by spring 2010 we will be offering our six degrees of freedom tracking technology, which is currently still in development. That technology is being designed to both accurately track an object's and the user's position in 3D virtual space and to combine that tracking capability with translational information about the three rotational axes (roll, yaw, pitch). The addition of this translational information will allow the device to report information about its X, Y and Z position as it moves. This will expand the realism and accuracy for users interacting in a VR or AR environment. We anticipate that our six degrees of freedom tracking technology will be available both separately as an accessory and as a built-in feature of many of our Video Eyewear products.

We anticipate that future generations of our Video Eyewear products will have form factors that should be even more appealing to consumers, with appearances and sizes that are more like ordinary sunglasses, and be more

ergonomic and fashionable. We intend to sell our binocular products into the defense markets and have developed and delivered prototypes of a rugged version for marine applications. We also intend to sell our binocular products for industrial applications that are similar to those in the defense markets and with our new Wraptm line of Video Eyewear we anticipate advanced applications from training and tools for maintenance and repair to interactive product design and development.

Monocular Video Eyewear Products

Our Tac-Eye® monocular (single eye) high-resolution Video Eyewear models are designed to clip onto a pair of ballistic sunglasses, a head set or conventional safety goggles. They can be used with the large installed base of rugged laptops, security and night vision cameras and thermal night vision sights, including those systems that we currently act as a sub-contractor of display drive electronics to the US defense department. Tac-Eye® enables users to have wearable, private and hands-free access to high-resolution content or information. They enable the viewing of material that is difficult or impossible to accurately view on the lower-resolution direct view screens that are standard on many of these devices without extensive zooming in or panning across the screen.

Most of our Tac-Eye® products have an SVGA display and afford a 28 degree field of view, the equivalent of a 20-inch computer screen at three feet. They are also designed to be durable and suitable for defense field use and industrial applications.

Defense Sub-Assembly and Custom Solutions

We are involved in two programs as part of contracting teams that produce display drive electronic subassemblies for light, medium, and heavy weight thermal weapon systems for US and other defense forces. We produce the display drive electronics as part of these night-vision systems and over the last five years we have delivered over 107,000 systems. These products have accounted for over 50% of our sales in the last two years.

We also have provided full optics systems, including head mounted devices, wrist worn displays, human computer interface devices, and wearable computers as prototypes under several armed services test programs. These are being tested in applications such as the remote control of unmanned vehicles. When possible, we obtain a first right of refusal to be the volume manufacturer of our proprietary display subassemblies as part of our contracting process for the custom design of products.

Low-vision Assist Products

We offer two Video Eyewear products specifically for low-vision assist applications. The first is a bundle of our AV920 Video Eyewear with an external handheld camera that magnifies written information to help a user to read small print. The second consists of binocular Video Eyewear that incorporates a camera and digital signal processor that uses our proprietary digital signal processing algorithms to increase contrast, magnification, color correction, edge detection, histogram flattening, and using other video processing techniques. The image received by the camera is processed, enhanced and transmitted to the displays within the Video Eyewear to be viewed by a user suffering from macular degeneration. These devices are designed to permit many users suffering from macular degeneration to perform a number of normal daily functions, such as reading or signing a check, that they could not perform unaided.

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. Near-to-eye virtual displays and their components use relatively new technologies. We believe that it is technologically feasible to improve the weight, ergonomics, optical performance, luminance, power efficiency, design compactness, field of view and resolution of the current generation of virtual displays and display components. 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 also develop intellectual property through our ongoing performance under engineering service contracts for the US Government. During our fiscal years ended December 31, 2008, December 31, 2007 and December 31, 2006, we spent $3,366,518,

$2,365,412 and $1,279,239, respectively, on research and development activities. We expect to continue to increase our research and development expenditures in the future. We have also acquired technologies developed by third parties and we may do so in the future.

We believe that the range of our proprietary technologies gives us a significant competitive advantage. Our technologies include motion tracking systems; stereoscopic display assemblies; optic systems; display backlights; mobile and wearable computing devices and user interface technology; low-power electronics; software drivers; and software applications. Our technologies enable us to provide low-cost, small form factor, high-resolution Video Eyewear products. To protect our technologies, we have developed a patent portfolio which consists of:

- 44 total patents issued worldwide;
- 27 US patents issued (12 non-provisional, 15 design);
- 12 US patents pending (3 design, 7 non-provisional, 2 provisional);
- 17 international (non-US) patents issued (15 design, 2 non-provisional);
- 11 international (non-US) patents pending (3 design, 5 non-provisional, 3 applications under the Patent Cooperation Treaty); and
- 5 applications in preparation but not yet filed, covering our virtual display technology.

Our US patents expire on various dates from May 7, 2010 until September 23, 2024. Our international patents expire on various dates from May 30, 2015 until May 30, 2030.

Major technologies that we employ in our products include:

Hardware Technology

Virtual Display Technology (including Lens Technology and Optics Assemblies)

Microdisplay optics represents a significant cost of goods for both us and our competitors. Driving this cost is the significant trade off between the physical size of the microdisplay and the cost of the supporting optics. Smaller displays require larger and more sophisticated optics, while larger displays require less magnification and less complex optics. The smaller a microdisplay is, the less it costs to produce. But the smaller a microdisplay is, the more difficult it is to make optics systems that have no user adjustments, large fields of view and very low distortion specifications. To improve our Video Eyewear's fashion and ergonomics we are developing thin and lightweight optics that can be integrated with display engines that match conventional eyewear frames in size and weight and provide what we believe are significantly improved ergonomics compared to competing wearable virtual displays.

Vuzix Quantum Optic: We believe we have developed revolutionary "first surface" optics assemblies that include lenses, microdisplays, and backlights, all assembled into a single sub-assembly. This technology permits the production of inexpensive microdisplay engines that provide low-distortion and large field of view images. We expect that this technology will also enable us to produce sunglass-styled Video Eyewear products that will allow the user to see through the display to the real world. We expect to introduce the first of these products in the fourth quarter of 2009 under the Wraptm brand. We have both issued and pending patents with respect to this technology.

Vuzix Blade Optic: We are developing an optical display engine that uses a blade of glass or plastic as a wave guide, which we refer to as the Bladetm. The Blade uses a "projected" image from a conventional microdisplay that is "squeezed" into a thin blade of glass or plastic and, using a proprietary light guide expander, the image exits from the glass in front of the user's eye. We expect this display engine will provide a large field of view from a very thin lens system. The Blade can also function in see-through applications. Unlike competing wearable virtual displays, a see-through display does not obstruct the wearer's vision or reduce his awareness of what is happening around him. Video Eyewear employing this display engine will be closer to conventional sunglasses than currently available products in comfort, size, weight and ergonomics. We have filed patent applications with respect to this technology.

Holographic Display Engine: We have numerous patents and patents pending on our new Holographic Display Engine (HSE). The HSE incorporates both a display subsystem and associated optics in a single monolithic design. The image is projected into the edge of a slim piece of glass where it is internally reflected and directed out

through a holographic element where it appears as a large virtual screen to the user. To date we have successfully prototyped a monochrome version of this display engine in our design lab. If our continued research is successful we believe we should ultimately have a low cost very high-resolution display engine that by price, resolution, weight, form factor and power consumption all should far exceed existing microdisplay technology.

Low Power — LCD Drive Electronics: We believe that our numerous successful designs for the defense market demonstrate that we can design and successfully implement very low-power microdisplay electronics modules. The electronics required to drive advanced microdisplays are a complex and costly piece of a virtual display system. We may develop application-specific integrated circuits (ASICs) to further reduce the cost, number of components, and size of our electronics package while improving the performance with various input sources. While costly and complicated to develop, we believe these ASICs could be critical to the success of our cost reduction programs and, once completed, should also create barriers to entry for competitors.

Position Tracking: Our tracking system incorporates patented, multi-axis, "source-less" tracking technology to track the rotational orientation of the user's head. Using the earth's magnetic field and gravity as references, a silicon sensor supplies the yaw information and a silicon-based tilt sensor supplies pitch and roll, as well as error correction. We have significantly reduced the cost of tracking with our patented technology as compared to competitive alternative solutions available today. We have also begun development on our 6 degrees of freedom tracker that adds translational tracking about the three rotational axes (roll, yaw, pitch). We believe that cost-effective tracking technology is fundamental to any Virtual and Augmented Reality Video Eyewear system's success and will help create a significant barrier to entry for the competition.

3D Content Delivery

Vuzix Automated 3D Watermark: In response to the proliferation of large-screen, HD home entertainment systems, the motion picture industry has recently begun to invest in stereoscopic 3D technologies to attract theater viewers. Over 5,000 North American movie theaters are being converted to both digital projection and full 3D and production of 3D motion pictures is increasing. Video Eyewear, with its immersive environment and two separate displays, is well suited for viewing 3D content and avoids many of the negative issues typically encountered by shutter, polarized or color anaglyph glasses used in competing technologies such as video color distortion, noticeable flicker, decreased contrast and bleed-through. Currently, in order to effectively display 3D content, the viewer must manually switch the projection system or display device to 3D mode as required by the content. We have developed and have patents pending on a system that does this automatically for the viewer. Using our system, a "watermark" is embedded into the video stream that identifies it as being 3D content. Our Video Eyewear can decode the watermark and reconfigure the Video Eyewear to view the content in 3D without any involvement by the viewer. If the content is not in 3D, the Video Eyewear remains functioning in two-dimensional mode. Our technology can be used with both legacy and advanced Digital Rights Managed (DRM) delivery systems.

Vuzix 3D Stereoscopic USB Drivers: We have developed a USB driver that will allow most 3D titles to work in 3D stereoscopic mode with our PC based Video Eyewear. This driver allows 3D titles that have been and are being created utilizing Microsoft's Direct X 3D graphics drivers and Open GL, industry standards for entertainment and other 3D graphic applications, to be viewed in stereoscopic 3D using our Video Eyewear. We release support for the 3D titles using "Monitor Software" on a title-by-title basis, typically coincident with added tracking capabilities.

General Eyewear Technology

Vuzix Ergonomics and Industrial Designs: We have developed ergonomic technologies that make head-worn displays easier to use in a wide variety of applications. For example, we are currently one of the only producers of Video Eyewear solutions that offers focus adjustment on our products that accommodate many of our users that need glasses for vision correction and at the same time we offer the ability to accommodate glasses for those that need them. We generally file design patents on our more advanced solutions.

Software/Firmware Technology

We believe that our substantial software portfolio provides a competitive advantage. We have developed an extensive set of Windows XP/Vista 32 and 64 bit drivers, Mac through to WIN CE and .NET drivers and core code

capability that allows us to efficiently add new feature sets centered around our hardware and their related software products. We anticipate that this software technology will be the foundation for some of our future products. Additionally, we have a base of embedded microprocessor and field-programmable gate array (FPGA) code related to microdisplay drive electronics. We also have a large library of internally developed, copyright-protected software that is used throughout our products. Usable software applications and add-on accessory hardware drivers can greatly increase customer value of our Video Eyewear products.

Patents and other Intellectual Property

We have a comprehensive intellectual property policy which has as its objectives: (i) the development of new intellectual property both to ensure and further our intellectual property position in relation to personal display technology; and (ii) the maintenance of our valuable trade secrets and know-how. We seek to further achieve these objectives through the commencement of more education and training of our engineering staff and the adoption of appropriate systems 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 and Japan, while inventions which are considered to have the greatest potential are further protected by the filing of patent applications in additional countries, including Canada, Russia and China. We file and prosecute our patent applications in pursuit of the most extensive protection including, where appropriate, the applications of the relevant technology to the broader display industry.

We believe that our intellectual property portfolio, coupled with our key supplier relationships and accumulated experience in the personal display field, gives us an advantage over potential competitors. We also believe our copyrights, trademarks, trade secrets, and patents are critical to our success, and we intend, directly or indirectly, to maintain and protect these. We also rely on proprietary technology, trade secrets, and know-how, 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.

In addition to our various patents, Vuzix currently has 11 registered US trademarks and a total of 27 trademark registrations worldwide.

Competitors and Competitive Advantage

The personal display industry in which we operate is highly competitive. We compete against both direct view display technology and against near-eye 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, ergonomics and finally the interactive capabilities of the overall display system.

Most of our competitors' products are based on direct view display systems, in which the user views the display device, or screen, directly without magnification. These products have several disadvantages compared to virtual displays and our Video Eyewear products. If the screens are large enough to read as conventional internet page or HD video without external magnification or image zooming, the products must be large and bulky, such as laptops, personal computers or portable DVD players. If the displays are small, such as those incorporated in cellular phones and PDA-like devices, the screens are difficult to read when displaying higher resolution content. Despite the limitations of direct view personal displays, advanced multi-media enabled or smart cellular phones are being produced in ever increasing volumes by a number of manufacturers, including Motorola, Inc., Nokia Corporation, Sony Ericsson Mobile Communications AB, Research In Motion Limited, Samsung Electronics Co., Ltd., LG Electronics and Apple Inc. (Apple). We expect that these large and well-funded companies, as well as newer entrants into the marketplace, will make products that seek to compete with ours based on improvements to their existing direct view display technologies or on new technologies.

We also have competitors who produce near eye personal displays or Video Eyewear. However, most of our competitors' current products lack one of more of the following critical features: advanced optics, video up-scanning, 3D stereoscopic support, on-screen video controls, and tracking. Furthermore, we believe that most of our

competitors' near eye products have inferior optics, marginal electronics and poor industrial design and that, as a result, our Video Eyewear products are superior to those of our competitors in both visual performance and ergonomics. They are lightweight and provide high-resolution images. They have convenient and easy to use controls that enable the user to control the display. Our systems are also typically more power-efficient than those of our competitors. We believe that tracking technology is a critical component of any VR or AR system and that our patented tracking technology gives us a competitive advantage in the markets for those systems.

Competition — Consumer Products

A number of major companies, such as Sony, Olympus Corporation and Canon Inc., produced head worn video display products for the consumer market in the late 1990s. These products were not well accepted by consumers and were ultimately discontinued. We believe that these products were not well accepted because they were ergonomically unsatisfactory and provided only low resolution images and because, at that time, there was little demand for mobile Video Eyewear. When these products were available, video content was generally stored on video tape and could only be viewed by playing the videotape on a videotape recorder connected to a television. Currently there are a number of smaller companies that have products which compete with our Video Eyewear products. Our major competitors are MyVu, Zeiss, i-O Display Systems, LLC, DaeYang Co., Ltd., Cybermind Interactive Nederland, Mirage Innovations, Ltd., Lumus, Shenzhen Oriscape Electronic Co., Ltd., Microvision Corporation (Microvision) and Kopin.

Kopin began offering QVGA and VGA binocular display modules (BDM) complete with drive electronics to original equipment manufacturers (OEMs) in 2006. Those modules are designed for easy customization by OEMs and include microdisplays, backlights, optics and drive electronics. The availability of those BDMs has greatly reduced the investment required for new competitors to enter the business. To date, the Kopin products have been primarily used by Asian-based Video Eyewear manufacturers. Kopin does not currently compete with Vuzix at the retail level. Kopin is our primary supplier of microdisplays.

In addition to numerous Asian-based companies using Kopin BDMs, we currently have two principal competitors in the consumer Video Eyewear market: MyVu and Zeiss.

- MyVu has based its most recent product line on an optic design that results in relatively small virtual image sizes. While this allows for a smaller form factor, it does not provide the large virtual image that we believe consumers desire from Video Eyewear products. Images on our Video Eyewear products appear as much as four times larger than those on MyVu products. MyVu products also do not currently support 3D, VGA video from a PC or tracking. Finally, MyVu does not have a Video Eyewear product designed specifically for the gaming market.
- Zeiss introduced its first Video Eyewear product in the spring of 2008. This product is bigger and bulkier than ours and we believe it will be less acceptable in the mobile markets. And while Zeiss does provide some level of 3D video support, it does not currently offer PC products nor does it support the tracking technology that would allow its products to be interactive.

There are also several Chinese manufacturers offering Video Eyewear products that have one or more of the deficiencies described above.

Competition — Industrial and Defense

Although several companies produce monocular Video Eyewear, we believe that opportunities for sales of their products to date have been limited. So far, the market opportunity outside of the night vision products has been limited primarily to trial tests, rather than commercial volume purchases for defense and industrial applications. We are aware of only very limited commercial volume purchases in the defense and industrial markets. Our current competitors in these markets are Liteye Systems, Inc., Lumus, Shimadzu Corporation, Microvision, Kopin, Creative Display Systems, LLC, OASYS Technology, LLC, Rockwell Collins, Inc. and its subsidiary Kaiser. Some of these companies are currently shipping product and others have only introduced prototypes and/or are offering only limited sample quantities. We expect that we will encounter competition in the future from major

suppliers of imaging and information products for defense application, including DRS Technologies, Inc. (DRS), Insight Technology Incorporated, Raytheon Company and BAE Systems, Inc.

There is competition in all classes of products manufactured by us, including from divisions of the large companies, as well as many small companies. Our sales do not represent a significant share of the industry's market for any class of its products. The principal points of competition for electronic products of both a defense and industrial nature include, among other factors: price, product performance, the experience of the particular company and history of its dealings in such products. We, as well as other companies engaged in supplying equipment for military use, are subject to various risks, including, without limitation, dependence on US and foreign government appropriations and program allocations, the competition for available military business, and government termination of orders for convenience.

We believe that most of the monocular Video Eyewear products offered by our competitors are inferior to ours because they are bulky, have small image sizes with poor optics and/or are currently priced higher than our products.

Competition — Low-Vision Assist

The majority of competitors in the low-vision assist market offer magnification systems that consist of a large desktop television or computer screen that displays a magnified version of an image captured by a hand scanner or stationary camera. Over 30 companies currently offer such vision tools. The largest providers are Enhanced Vision Inc. (Enhanced Vision) (which markets its product under the Merlin brand name), MagniSight, Inc., Optelec Holding B.V., REHAN Electronics Ltd. (which markets it product under the Affinity brand name), Beirley Associates, Inc., Telesensory Corporation and eSight Corporation. Although the products offered by these companies can provide effective low-vision assistance to many users, they are not mobile and they are often difficult to use. They generally require the user to sit in front of the large screen to view the image. Recently, some companies, including Enhanced Vision, have introduced mobile digital magnifiers that include a camera and an integrated six-inch LCD screen. Enhanced Vision's product is marketed under the Amigo brand. We do not believe that any of these competitive products offers the flexibility of usage, portability and some of the advanced digital video signal processing capabilities of our LV920. Moreover, the utility of all of the other competitive tools is generally limited to reading, whereas the LV920, which employs a wearable camera and is mobile, can also be used for many other normal vision applications.

In the wearable low-vision assist market, our competitors are manufacturers of optical loops and head worn optical systems and one manufacturer of a digital magnifying system similar to our LV920. The optical loops are usually worn by dentists, doctors, and jewelry makers for their fine work, and have gained limited use in the low-vision assist market due to their lack of signal processing and image brightness issues. The competitive digital magnifier is manufactured by Enhanced Vision and is sold under the Jordy and Maxport brand names. While the Enhanced Vision product has been sold for several years now, its market penetration has been limited. We believe our low-vision assist product is more ergonomic and offers more advanced digital video signal processing techniques than those manufactured by Enhanced Vision.

Sales and Marketing

Sales

Our sales strategy is to introduce our products to the widest possible audience within our target markets. We focus today on the consumer and industrial and defense markets. Historically, most of our sales efforts were directed toward obtaining contracts to provide custom engineering solutions and products for the defense and industrial markets. However, in 2005, as our products and technology evolved, we began to also sell standard Video Eyewear products for the consumer markets. In fall 2008, we began offering products for the low-vision assist market.

We have separate marketing and sales strategies for each of our target markets. We have an internal sales force of five people. We regularly attend industry trade shows in our markets and have begun establishing some level of separate branding for both of our divisions. The consumer division sells under the Vuzix name and the industrial and defense division under the Tac-Eye® name.

During the years 2008 and 2007, 63.8% and 67.6% of our sales were derived from providing goods and services to the US government, directly and indirectly. Of those amounts, 80.7% in fiscal 2008 and 20.7% in 2007 were derived from subcontracts with Kopin and DRS, and we are dependent upon continuing to be engaged as a subcontractor to them. We derived 35.4% of our sales from consumer Video Eyewear products in fiscal 2008 and 32.4% and 21.2% in fiscal 2007 and 2006 respectively.

Marketing

Our marketing group is responsible for product management, planning, advertising, marketing communications, and public relations. We intend to become known as the premier supplier of Video Eyewear in the consumer markets, where our products are currently sold under the iWear® brand. We also intend to become known as the premier supplier of virtual display technology and systems for the industrial, defense, and low-vision assist markets. We employ public relations firms in both the United States and England and a marketing firm to help convey our message through brochures, packaging, tradeshow messaging and advertising campaigns. We plan to undertake specific marketing activities as needed, including, but not limited to:

- product reviews, case studies and promotions in trade publications;
- enhancement and maintenance of our Website;
- Internet and web page advertising and targeted emails;
- public relations, print advertising, catalogs and point of purchase displays
- trade shows and sponsorships;
- co-marketing relationships with relevant companies in selected markets; and
- Internet awareness and outreach activities.

Industrial and Defense

We primarily solicit and manage our government/defense products and engineering services directly. We expect to continue to obtain business through marketing our existing reputation within the defense markets for quality, precision electronics for defense night vision and thermal weapons systems. We believe this market to be a relationship and "word of mouth" market in which large contracts are generally awarded only to those who have performed well on previous contracts. We employ, and expect to continue to employ, a Washington-based lobbying firm to help increase our visibility as a potential supplier in these markets and to assist us in uncovering new sales opportunities. We also act as a value added supplier, supplying our products to major defense suppliers, such as iRobot and DRS, to complement their products so that they can offer a complete turn-key solution to their potential defense customers. We are attempting to expand such partnerships and co-marketing agreements with government- and defense-focused value added resellers and system integrators, for our Tac-Eye® product lines. We market our products primarily through our own direct sales organization. Business is solicited from large industrial manufacturers and defense companies, the US government and foreign governments and major foreign electronic equipment companies. In certain countries we have and will use external sales representatives to help solicit and coordinate foreign contracts. We are also on the eligible list of contractors of many agencies of the US Department of Defense and may now be solicited by such agencies for procurement needs falling within the major classes of products we produce. We also search the various government contract offering sites for procurement programs in which we believe we are qualified to participate.

Consumer

We engage in a variety of marketing efforts that are intended to drive customers to our products and to grow awareness of our consumer products and Video Eyewear in general. Public relations is an important aspect of our

marketing and we intend to continue to distribute samples of our products to key industry participants. We currently plan to focus our marketing efforts for the next 12 months on:

- distinguishing the Video Eyewear product category from current competitors and legacy head mounted displays;
- building consumer acceptance and momentum around the new Video Eyewear category;
- creating awareness of the benefits of Video Eyewear as compared to existing technologies; and
- creating brand awareness of the Vuzix, iWear® and Wraptm brands.

Our Video Eyewear and VR Video Eyewear products are currently sold directly to consumers, through select specialty retailers, through catalogue offerings and through third party North American distributors including D&H and Wynit. Our products are currently sold by the following US based resellers: SkyMall, Brookstone, Hammacher Schlemmer, Amazon and Micro Center. Our website, www.vuzix.com is an important part of our direct sales efforts.

If our marketing efforts are successful and our sales volume increase we expect that most of our products will then be sold through the traditional consumer electronics and PC mass-market distribution channels and to a smaller extent from our current specialty retailers. Therefore, we intend to spend the majority of our marketing budget during this phase on website, direct sales support and on reseller incentives and support. For resellers with physical retail locations we began offering in the US, point of purchase systems that include a video frame running a slide show presentation on the products as well as an integrated fully functional Video Eyewear product that allows potential customers to use our products.

We may also explore and consider OEM and licensing relationships with manufacturing partners, consumer electronics firms, and mobile phone makers.

We intend to sell our products internationally through our growing network of international distributors. Our distributorships are being established on a country by country basis, where market size allows. Normally, we appoint two or more distributors in each area. However, in August 2009, we entered into a long-term exclusive distribution arrangement for the Chinese marketplace with a single distributor. This agreement is subject to minimum funding and annual sales volume requirements. Under this agreement, the distributor has the option, subject to its achievement of unit sales volume thresholds, to manufacture some of products under license directly in China for that marketplace only.

Our initial international focus was on Japan. In late 2007 we opened a branch sales and service office in Tokyo, staffed by two full-time personnel. In addition to supporting local resellers and distributors and providing end user customer support, we are seeking new sales channels and partnerships with software and hardware solution providers in Japan.

To serve the EU market, in spring 2008 we established a wholly owned subsidiary, Vuzix (Europe) Limited, through which to conduct our business. As of June 30, 2009 we had resellers in 23 countries that had placed orders with us in the last six months. While we do not currently maintain a European office, we have contracted with a third-party end user technical support firm and fulfillment center to service our customers in the EU. We have also retained a sales consultant (who acts as our European Director of Operations), a UK public relations firm and a mobile applications consultant to provide us with advice regarding the European cellular phone market.

Low-Vision Assist

We intend to market our low-vision assist products through low-vision clinics, catalogs and the Internet. Our research indicates that most low-vision sufferers visit a low-vision clinic after visiting a retinal specialist (of which there are approximately 2,000 in the United States) or after a low-vision examination at an optometrist or ophthalmologist. We intend to develop an awareness campaign aimed at retina specialists and to provide demonstration systems and brochures at low-vision clinics, which are the most common purchase point for low-vision assist products. An internal sales force and independent sales representatives will be used to sell our products through and to those clinics. We intend to test our products against other low-vision aids and publish the results in medical journals and present them at medical conventions. There are at least five major trade shows each

year for retina specialists in North America and we intend to exhibit both our products and present the results of our testing at those shows.

Manufacturing

Currently, we purchase product components from our suppliers and perform the final assembly of our Video Eyewear products ourselves in our Rochester, New York facility. We are experienced in the successful production of our products in moderate volumes. We expect to continue to perform final assembly of our Video Eyewear products ourselves over the short term. However, if our assembly volume increases and cost effective third party sourcing becomes feasible, we anticipate that we will outsource the bulk of the final assembly, with the possible exception of certain critical optical and display components.

We currently purchase almost all of the microdisplays used in our products from Kopin and eMagin. Kopin accounts for approximately 95% of our microdisplays by unit volume. Our relationships with both Kopin and eMagin generally are on a purchase order basis and neither supplier has a contractual obligation to provide adequate supply or acceptable pricing on a long-term basis. We estimate that products incorporating Kopin microdisplays will account for approximately 46% of our sales in 2009 and products incorporating eMagin microdisplays will account for approximately 20% of our sales in 2009. We procure increasing percentages of our microdisplays from other sources, but they are very limited currently. While we do not manufacture our components, we own the tooling that is used to make our custom components (with the exception of Apple iPod authentication chips and connectors that we acquire directly under license from Apple). We do not believe that we are dependent on our relationships with any supplier other than Kopin and eMagin in order to continue to operate our business effectively. Some of our accessory products, such as screen-less portable DVD players and mouse based camera systems are sourced from third parties as finished goods. We typically have them print our Vuzix brand name on the products. Such third party products represent less than 2% of our sales in 2008.

We are committed to globally sourcing all our components to minimize product costs. We anticipate that procuring assembled products from third parties will result in decreased labor force requirements, capital equipment costs, component inventories, and the cost of maintaining inventories of work in progress. We generally procure components and products from our vendors on a purchase order basis without any long-term commitments. We currently use several Asian manufacturing sources, where we have located some of our tooling.

Employees

As of the date of this prospectus, we had 52 full-time employees in North America: seven in sales and marketing, distribution, and customer service; 17 in research and development and engineering services support; 20 in manufacturing, operations and purchasing; one in quality assurance; and seven in finance, management, and administration. We also work with a group of sub-contractors mainly for industrial, mechanical and optical design assistance in the Rochester, New York area, some of which have been continually contracted over the last 36 months. In Japan we have two full-time employees and in the UK we have one full-time contractor to manage our European sales and marketing activities.

Facilities

Our manufacturing facility, consisting of approximately 8,800 square feet, is located at 2166 Brighton Henrietta Townline Road, Rochester, New York 14623, and our research and development, sales and administration offices, consisting of approximately 9,600 square feet, are located in two different suites at 75 Town Centre Drive, Rochester, New York 14623. We currently pay approximately $65,000 per year in rent for our manufacturing facility and $110,000 per year for our research and development, sales and administration offices. The manufacturing facility is leased on a calendar year term and we expect to renew the lease on substantially the same terms prior to its expiration at the end of 2009. We currently occupy the suite on which our lease expired on a month-to-month basis. Our lease on both our office suites expires in June 2010.

We believe that each of our facilities is in good operating condition and will adequately serve our needs for at least the next 12 months. Subject to the successful completion of this offering, we intend to start re-consolidating our facilities. This will be done for efficiency reasons. We anticipate that, if required, suitable additional or

alternative space would be available on commercially reasonable terms to accommodate expansion of our operations.

Legal Proceedings

As at the date of this prospectus, we are not a party to, and our property is not the subject of, any legal proceedings, and we are not aware of any such proceedings contemplated by or against us or our property.

There have been no penalties or sanctions imposed against us by a court relating to Canadian provincial and territorial securities legislation or by a Canadian securities regulatory authority within the three years immediately preceding the date of this prospectus.

There have been no penalties or sanctions imposed by a court or regulatory body against us that are necessary to be described herein for the prospectus to contain full, true and plain disclosure of all material facts relating to the securities being distributed, nor have we entered into any settlement agreements before a court relating to Canadian provincial and territorial securities legislation within the three years immediately preceding the date of this prospectus.

History

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. It was originally owned and controlled by Kopin, our main current microdisplay supplier. Most of the technologies developed by Forte are now owned and used by us.

Thereafter in 1997 we changed our name to Kaotech Corporation. In 1998 we changed our name to Interactive Imaging Systems, Inc. In 2004 we changed our name to Vicuity Corporation and then to Icuiti Corporation. In 2007, we changed to our current name, Vuzix Corporation. None of these name changes were the result of a change in our ownership control.

Our corporate offices are located at 75 Town Centre Drive, Rochester, New York 14623. Our phone number is (585) 359-5900. The URL for our website is www.vuzix.com. The information contained on, connected to or that can be accessed via our website is not part of this prospectus. We have included our website address in this prospectus as an inactive textual reference only and not as an active hyperlink.

MANAGEMENT

Executive Officers, Key Employees, Directors and Director Nominees

Below are the names, ages and positions held with us of our executive officers, key employees, directors and directors elect.

Name	Age	Position(s)
Paul J. Travers	47	CEO, President and Director
Grant Russell	56	CFO, Executive Vice President, Treasurer and Director
Vincent J. Ferrer	37	Director of Engineering
Paul Churnetski	61	Vice President — Quality Assurance
Gary VanCamp	62	Vice President — Low-Vision Assist Products
Steven D. Ward	48	Controller
Stephen J. Glaser	37	Vice President — Sales & Marketing — Defense
Mike Hallett	36	Director Sales — Consumer
Peter Artz	40	Director of Manufacturing
William Lee	56	Director
Frank Zammataro	51	Director Elect
Kathryn Sayko	42	Director Elect
Bernard Perrine	46	Director Elect

Executive Officers

Paul J. Travers was the founder of Vuzix and has served as our President and Chief Executive Officer since 1997 and as a member of our board of directors since November 1997. Prior to the formation of Vuzix, Mr. Travers founded both e-Tek Labs, Inc. and Forte Technologies Inc. He has been a driving force behind the development of our products for the consumer market. With more than 20 years experience in the consumer electronics field, and 13 years experience in the virtual reality and virtual display fields, he is a nationally recognized industry expert. He holds an Associate degree in engineering science from Canton, ATC and a Bachelor of Science degree in electrical and computer engineering from Clarkson University. Mr. Travers resides in Honeoye Falls, New York, United States.

Grant Russell has served as our Chief Financial Officer since 2000 and as a member of our board of directors since April 2009. From 1997 to 2004, Mr. Russell developed and subsequently sold a successful software firm and a new concept computer store and cyber café. In 1984, he co-founded Advanced Gravis Computer (Gravis), which, under his leadership as President, grew to become the world's largest PC and Macintosh joystick manufacturer with sales of $44,000,000 worldwide and 220 employees. Gravis was listed on NASDAQ and the Toronto Stock Exchange. In September 1996 it was acquired by a US-based Fortune 100 company in a successful public tender offer. Mr. Russell holds a Bachelor of Commerce degree in finance from the University of British Columbia and is both a US Certified Public Accountant and a Canadian Chartered Accountant. Mr. Russell resides in Vancouver, British Columbia, Canada.

Key Employees

Paul J. Churnetski — Mr. Churnetski held the position of Vice President of Manufacturing from November 1997 to December 2005, when he became Vice President of Quality Assurance at Vuzix. Mr. Churnetski was also a member of our board of directors from November 1997 to August 2007. He was previously employed with medical manufacturers Fisons Corp. and Pennwalt Corp., where he held senior positions in the areas of technical operations, quality assurance, manufacturing, and information technology. He holds a Bachelor of Arts degree from the State University of New York, College at Geneseo, and was previously certified as a Quality Engineer. Mr. Churnetski resides in Henrietta, New York, United States.

Vincent J. Ferrer has served as our Director of Engineering since September 2005. Mr. Ferrer is responsible for directing our research and development team as well as managing our intellectual property portfolio and regulatory affairs for markets served. From July 1993 to September 2005, Mr. Ferrer was an engineer and project manager at Belkin Components, Inc. Mr. Ferrer holds a Bachelor of Science degree in computer engineering from Rochester Institute of Technology. Mr. Ferrer resides in Pittsford, New York, United States.

Gary VanCamp has been with us since March 2004 and has served as our Vice President — Low-vision Assist Products since August 2007. Prior to joining us, Mr. VanCamp was a Project Manager — World Wide Training (Sales and Marketing Department) at Intel Corporation from January 1998 through July 2003. His more than 25 years of electronics engineering, manufacturing, and project management experience includes project management, Vice President of Engineering positions and extensive hardware design and development experience. Mr. VanCamp holds a Bachelor of Science degree in electrical/electronics engineering from Rochester Institute of Technology. Mr. VanCamp resides in Rochester, New York, United States.

Steven D. Ward has served as our Controller since January 1998. Mr. Ward, formerly a Certified Public Accountant, is responsible for all of our accounting and human resource services. Mr. Ward's previous experience includes positions as Controller/Tax Manager for AM&M Companies, a financial services firm, and as a principal in a regional certified public accounting firm. Mr. Ward holds a Bachelor of Science degree in accounting from the State University of New York, College at Fredonia. Mr. Ward resides in Rochester, New York, United States.

Stephen J. Glaser has served as our Vice President Sales & Marketing — Defense and Industrial since January 2000. Prior to joining Vuzix, Mr. Glaser worked in sales with Johnson & Johnson. Mr. Glaser holds a Bachelor of Science degree in marketing and business administration from State University of New York, Empire State College. Mr. Glaser resides in Pittsford, New York, United States.

Michael Hallett has been with us since May 2005 and has served as our Director of Sales — Consumer since October 2008. From June 2004 to May 2005, Mr. Hallett was a sales manager at Wards Natural Science. Prior to that position, Mr. Hallett held sales positions at Unisys Corporation and Paychex, Inc. Mr. Hallett holds a Bachelor of Science degree in business administration with a concentration in marketing and a minor in economics from the State University of New York, College at Brockport. Mr. Hallett resides in Canandaigua, New York, United States.

Peter Artz has been with us since February 2005 and has served as our Director of Manufacturing since October 2006. Mr. Artz is responsible for directing our Production, Manufacturing Engineering and Purchasing activities. Prior to joining Vuzix, Mr. Artz was with ECR Software Corporation for one year as a manufacturing analyst. Prior to joining ECR Software he was with PSC Inc. for eight years as a Senior Manufacturing Engineer, developing laser barcode scanners. Mr. Artz holds a Bachelor of Science degree in manufacturing engineering from Rochester Institute of Technology. Mr. Artz resides in Penfield, New York, United States.

Director

William Lee has served as a member of our board of directors since June 2009. Mr. Lee has been self-employed as a financial consultant since May 2008. From January 2006 to May 2008, he served as Chief Financial Officer of Jinshan Gold Mines Inc., a mining company listed on the Toronto Stock Exchange. From July 2004 to January 2006, he was engaged as a business analyst for Ivanhoe Energy Inc., a Toronto Stock Exchange and NASDAQ-listed company, and Ivanhoe Mines Ltd. Vancouver, an independent international heavy oil development and production company with operations in Canada, the United States, China, and Ecuador and listed on the New York and Toronto Stock Exchanges. Mr. Lee spent nine years engaged in the practice of public accounting with the firm of Deloitte & Touche. Mr. Lee is a member of the Institute of Chartered Accountants of British Columbia and holds a Bachelor of Commerce degree from the University of British Columbia. Mr. Lee also currently serves as a director of Tinka Resources Ltd., Halo Resources Ltd., both of which are listed on the TSX-V, and Golden Peaks Resources Ltd., which is listed on the TSX. Mr. Lee resides in Delta, British Columbia, Canada.

Directors Elect

Frank Zammataro has been elected, and has agreed to serve, as a member of our board of directors upon the effectiveness of the registration statement of which this prospectus forms a part. Mr. Zammataro is the President of

Rentricity, Inc., a privately held, renewable energy company which he founded in 2003. Prior to founding that business, Mr. Zammataro served as Chief Marketing Officer of w-Technologies, Inc., a wireless solutions start-up which provided a software platform and applications framework for companies developing consumer-based wireless services. From 1979 through 2000, he was employed by Merrill Lynch, Pierce, Fenner & Smith Inc., where in his last position he led the Internet-related market and services development activities. He holds a Bachelor of Arts degree in communications arts and political science from St. John's University. Mr. Zammataro resides in Chatham, New Jersey, United States.

Kathryn Sayko has been elected, and has agreed to serve, as a member of our board of directors upon the effectiveness of the registration statement of which this prospectus forms a part. Ms. Sayko is a Managing Director of J.P. Morgan, Inc., most recently serving as its Head of North East Middle Market Investment Banking Coverage. Ms. Sayko has been employed by J.P. Morgan since 1993. She holds a Bachelor of Business Administration degree from James Madison University School of Business and a Master of Business Administration degree from New York University, Stern School of Business. Ms. Sayko resides in New York City, New York, United States.

Bernard Perrine has been elected, and has agreed to serve, as a member of our board of directors upon the effectiveness of the registration statement of which this prospectus forms a part. Mr. Perrine, one of the founders of Kinko's Inc., has been self-employed as a business consultant since December 2007. From October 2006 through November 2007, Mr. Perrine served as Vice President — U.S. Sales and Marketing of Rexel, Inc., an electrical distribution company. From November 2005 through May 2006, he served as Chief Executive Officer of Telezygology, Inc., a start-up provider of intelligent fastening technologies. From August 2004 through September 2005, he was a Worldwide General Manager for Microsoft, Inc. Prior to August 2004, Mr. Perrine was Worldwide Vice President/General Manager, Digital & Film Imaging Systems for Eastman Kodak Co. He is in the process of completing a Bachelor of Science degree in management from the University of Akron. Mr. Perrine resides in Lincolnshire, Illinois, United States.

Each of our directors serves, and each of our directors elect shall serve, until the next annual meeting of our stockholders and until his or her successor is duly elected and qualified, subject to his or her earlier removal or resignation.

Indebtedness of Directors and Executive Officers

As of the date of this prospectus, no amount is owed to us or any of our subsidiaries by any of our directors, directors elect or executive officers.

As of the date hereof and during the fiscal period ended December 31, 2008, there was no indebtedness owing to us in connection with the purchase of securities or other indebtedness by any of our current or former executive officers, directors or employees except as described below under the "Related Party Transactions — Officer Loan."

No individual who is, or at any time during our most recent completed fiscal year was, a director or officer of our company, none of our directors elect, or any associate of any one of them is, or at any time since the beginning of our most recent completed fiscal year has been, indebted to us (other than in respect of amounts which would constitute routine indebtedness) or was indebted to another entity, which such indebtedness is, or was at any time during our most recent completed fiscal year, the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by us except as described below under the "Related Party Transactions — Officer Loan."

Family Relationships

There is no family relationship between or among any of our directors, directors elect or executive officers.

Involvement in Certain Legal Proceedings

During the past five years, none of our directors, directors elect, executive officers, promoters or control persons has: (1) filed a petition under the federal bankruptcy laws or any state insolvency law, nor had a receiver, fiscal agent or similar officer appointed by a court for the business or present of such a person, or any partnership in which he was a general partner at or within two years before the time of such filing, or any corporation or business

association of which he was an executive officer within two years before the time of such filing; (2) was convicted in a criminal proceeding or named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) was the subject of any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining him from or otherwise limiting the following activities: (i) acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, associated person of any of the foregoing, or as an investment advisor, underwriter, broker or dealer in securities, or as an affiliated person, director of any investment company, or engaging in or continuing any conduct or practice in connection with such activity; (ii) engaging in any type of business practice; (iii) engaging in any activity in connection with the purchase or sale of any security or commodity or in connection with any violation of federal or state securities laws or federal commodity laws; (4) was the subject of any order, judgment or decree, not subsequently reversed, suspended or vacated, of any federal or state authority barring, suspending or otherwise limiting for more than 60 days the right of such person to engage in any activity described in clause (3) above, or to be associated with persons engaged in any such activity; (5) was found by a court of competent jurisdiction in a civil action or by the SEC to have violated any federal or state securities law and the judgment in subsequently reversed, suspended or vacate; or (6) was found by a court of competent jurisdiction in a civil action or by the Commodity Futures Trading Commission (CFTC) to have violated any federal commodities law, and the judgment in such civil action or finding by the CFTC has not been subsequently reversed, suspended or vacated.

Cease Trade Orders, Bankruptcies and Penalties and Sanctions

None of our directors, directors elect, officers or control persons is, or within the ten years prior to the date of this prospectus has been, (a) a director, chief executive officer or chief financial officer of any issuer (including us) that, (i) was subject to an order that was issued while that person was acting in the capacity as director, chief executive officer or chief financial officer, or (ii) was subject to an order that was issued after that person ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer; or (b) a director or executive officer of any company (including us) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets. For the purposes of this paragraph, “order” means a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days.

None of our directors, directors elect, officers or control persons has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or has been subject to any other penalties or sanctions imposed by a court or regulatory body which would be important to a reasonable investor making an investment decision.

None of our directors, directors elect, officers or control persons (or a personal holding company of any such person) is, or within the ten years prior to the date of this prospectus has become, bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or has been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his assets.

Conflicts of Interest

Certain of our proposed directors are also directors of other public companies and our existing and proposed directors and officers are or may be shareholders of other public companies. Accordingly, conflicts of interest may arise between such persons’ duties as directors and officers of Vuzix and their positions as directors and shareholders of such other companies. All such possible conflicts are required to be disclosed in accordance with the requirements of applicable corporate law and the directors and officers are required to act in accordance with the obligations imposed on them by law.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth information for the fiscal years ended December 31, 2008 and 2007 concerning compensation of (i) the one individual serving as our principal executive officer during the fiscal year ended December 31, 2008 and (ii) the one individual serving as our principal financial officer during the fiscal year ended December 31, 2008 (collectively, the "named executive officers"):

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	All Other Compensation ($)	Total ($)
Paul J. Travers, President and	2008	$200,000	—	—	—	$200,000
Chief Executive Officer	2007	$142,460	—	—	—	$142,460
Grant Russell, Chief Financial	2008	$175,000	—	—	$ 24,571(1)	$199,571
Officer & Executive Vice President	2007	$127,407	—	—	$ 23,309(1)	$150,716

(1) Consists of amounts paid to Mr. Russell as a reimbursement for the rental of an automobile and direct travel to and from his residence in Vancouver, Canada to Rochester.

Employment Agreements

Paul J. Travers

On August 1, 2007, we entered into an employment agreement with Paul J. Travers providing for his continued service as our Chief Executive Officer and President. Under the agreement, Mr. Travers is entitled to an initial annual base salary of $200,000, subject to increases in the sole discretion of the board of directors, and upon the initial public offering of common stock an annual base salary of $300,000 or such greater amount as shall be determined by the board of directors. He is also eligible to receive such periodic, annual or other bonuses as the board of directors in its sole discretion shall determine and to participate in all bonus plans established for our senior executives. The agreement also provides that Mr. Travers may be awarded, in the sole discretion of the board of directors, stock options and other awards under any plan or arrangement for which our senior executives are eligible. The level of his participation in any such plan or arrangement shall be determined by the board of directors in its sole discretion. To the greatest extent permissible under the Internal Revenue Code (the Code) and the regulations thereunder, options granted to Mr. Travers shall be incentive stock options within the meaning Section 422 of the Code. He is also eligible to participate in all employee benefit plans which are generally available to our senior executives and entitled to receive fringe benefits and perquisites comparable to those of our other senior executives.

Mr. Travers' employment under the agreement shall continue indefinitely until terminated by him or by us. In the event that his employment is terminated by us other than for "cause" (as defined in the agreement), by him for "good reason" (as defined in the agreement) or upon his death or "disability" (as defined in the agreement), Mr. Travers shall be entitled to be paid, in addition to any base salary and bonuses then accrued and unpaid, and his then current base salary for 24 months after the date of termination and the entire bonus that would have been payable pursuant to any agreement, understanding, arrangement or plan in which he is entitled to participate for the year in which the termination of his employment occurred as if he had been employed for the entire year, provided that, in the opinion of the board of directors, he is likely to have met any bonus plan goals for the relevant period had he not been terminated. As a condition to our obligation to make any such payment, we, in our sole discretion, may require Mr. Travers to release us and our officers, directors, employees, and agents, from any and all claims and causes of action, including, but not limited to those arising from his employment and the termination of his employment. In the event of such termination, all stock options, restricted stock grants, stock appreciation rights and other similar awards held by Mr. Travers at the date of termination shall immediately vest, the period during which any options or rights relating to such grants may be exercised shall be the longer of the date specified in such

grants or the date that is thirty (30) days after the end of the 24-month period following the date of termination and will, in all other respects, continue to be governed by, and continued in accordance with, their applicable plan and grant documents. In the event that Mr. Travers's employment is terminated by us for cause or by him other than for good reason, Mr. Travers shall be entitled to be paid only any base salary then accrued and unpaid and annual bonus amounts for any fiscal year completed prior to the date of termination and we shall have no further obligations to him.

In the event of a "change of control" (as defined in the agreement), any unvested stock options held by Mr. Travers shall be fully vested and become immediately exercisable. Such options shall remain exercisable for the period remaining under the relevant stock option agreement and shall not have a shortened period of exercisability as a result of the change of control, except for statutory stock options which shall, at Mr. Travers's election, (i) expire 90 days after his termination (or one year after his termination upon his death or permanent and total disability) or (ii) be converted into non-qualified stock options expiring at the end of the entire term of such option under the relevant stock option agreement. Additionally, if Mr. Travers is terminated within one year of a change of control for any reason other than by us for cause, or if he elects to terminate his employment (whether or not for good reason) after the expiration of 120 days after and on or before the two-year anniversary of a change of control, Mr. Travers shall be entitled to be paid, in addition to any base salary and bonuses then accrued and unpaid, and his then current base salary for 48 months after the date of termination and the entire bonus that would have been payable pursuant to any agreement, understanding, arrangement or plan in which he is entitled to participate for the year in which the termination of his employment occurred as if he had been employed for the entire year, provided that, in the opinion of the board of directors, he is likely to have met any bonus plan goals for the relevant period had he not been terminated.

Under his agreement, we are obligated to reimburse Mr. Travers for the costs of an automobile at the rate of $750 per month and for all actual, reasonable and customary expenses incurred in the course of his employment in accordance with our policies as then in effect. Mr. Travers is subject to certain restrictive covenants under the agreement, including a covenant not to compete for 24 months after his termination for any reason other than by him for good reason or by us without cause and for 48 months after his termination if such termination results in our obligation to pay him the change of control payment described above.

Grant Russell

On August 1, 2007, we entered into an employment agreement with Grant Russell providing for his continued service as our Chief Financial Officer and Executive Vice President. Under the agreement, Mr. Russell is entitled to an initial annual base salary of $175,000, subject to increases in the sole discretion of the board of directors, and upon the initial public offering of common stock an annual base salary of $275,000 or such greater amount as shall be determined by the board of directors. He is also eligible to receive such periodic, annual or other bonuses as the board of directors in its sole discretion shall determine and to participate in all bonus plans established for our senior executives. The agreement also provides that Mr. Russell may be awarded, in the sole discretion of the board of directors, stock options and other awards under any plan or arrangement for which our senior executives are eligible. The level of his participation in any such plan or arrangement shall be determined by the board of directors in its sole discretion. To the greatest extent permissible under the Code and the regulations thereunder, options granted to Mr. Russell shall be incentive stock options within the meaning of Section 422 of the Code. He is also eligible to participate in all employee benefit plans which are generally available to our senior executives and entitled to receive fringe benefits and perquisites comparable to those of our other senior executives.

Mr. Russell's employment under the agreement shall continue indefinitely until terminated by him or by us. In the event that his employment is terminated by us other than for "cause" (as defined in the agreement), by him for "good reason" (as defined in the agreement) or upon his death or "disability" (as defined in the agreement), Mr. Russell shall be entitled to be paid, in addition to any base salary and bonuses then accrued and unpaid, and his then current base salary for 24 months after the date of termination and the entire bonus that would have been payable pursuant to any agreement, understanding, arrangement or plan in which he is entitled to participate for the year in which the termination of his employment occurred as if he had been employed for the entire year, provided that, in the opinion of the board of directors, he is likely to have met any bonus plan goals for the relevant period had he not been terminated. As a condition to our obligation to make any such payment, we, in our sole discretion, may

require Mr. Russell to release us and our officers, directors, employees, and agents, from any and all claims and causes of action, including, but not limited to those arising from his employment and the termination of his employment. In the event of such termination, all stock options, restricted stock grants, stock appreciation rights and other similar awards held by Mr. Russell at the date of termination shall immediately vest, the period during which any options or rights relating to such grants may be exercised shall be the longer of the date specified in such grants or the date that is thirty (30) days after the end of the 24-month period following the date of termination and will, in all other respects, continue to be governed by, and continued in accordance with, their applicable plan and grant documents. In the event that Mr. Russell's employment is terminated by us for cause or by him other than for good reason, Mr. Russell shall be entitled to be paid only any base salary then accrued and unpaid and annual bonus amounts for any fiscal year completed prior to the date of termination and we shall have no further obligations to him.

In the event of a "change of control" (as defined in the agreement), any unvested stock options held by Mr. Russell shall be fully vested and become immediately exercisable. Such options shall remain exercisable for the period remaining under the relevant stock option agreement and shall not have a shortened period of exercisability as a result of the change of control, except for statutory stock options which shall, at Mr. Russell's election, (i) expire 90 days after his termination (or 1 year after his termination upon his death or permanent and total disability) or (ii) be converted into non-qualified stock options expiring at the end of the entire term of such option under the relevant stock option agreement. Additionally, if Mr. Russell is terminated within one year of a change of control for any reason other than by us for cause, or if he elects to terminate his employment (whether or not for good reason) after the expiration of 120 days after and on or before the two-year anniversary of a change of control, Mr. Russell shall be entitled to be paid, in addition to any base salary and bonuses then accrued and unpaid, and his then current base salary for 48 months after the date of termination and the entire bonus that would have been payable pursuant to any agreement, understanding, arrangement or plan in which he is entitled to participate for the year in which the termination of his employment occurred as if he had been employed for the entire year, provided that, in the opinion of the board of directors, he is likely to have met any bonus plan goals for the relevant period had he not been terminated.

Under his agreement, we are obligated to either reimburse Mr. Russell for the costs of an automobile at the rate of $750 per month or to bear all expenses associated with his lease of an automobile for his use while in Rochester, New York and to reimburse him for all actual, reasonable and customary expenses incurred in the course of his employment in accordance with our policies as then in effect. Mr. Russell is subject to certain restrictive covenants under the agreement, including a covenant not to compete for 24 months after his termination for any reason other than by him for good reason or by us without cause and for 48 months after his termination if such termination results in our obligation to pay him the change of control payment described above.

2007 Amended and Restated Stock Option Plan

Our stock option plan was originally adopted by our board of directors and approved by our stockholders in October 1997. Our board of directors adopted and our stockholders approved the adoption of the amendment and restatement of our 1997 plan in August 2007. Throughout this prospectus we refer to the plan as amended and restated as our 2007 option plan. An aggregate of 45,714,288 shares of our common stock are reserved for issuance under the 2007 option plan. Our board of directors has determined that, upon the effectiveness of the registration statement of which this prospectus forms a part, no further options will be granted under our 2007 option plan.

Shares Available for Awards. As of the date of this prospectus, we had issued 2,876,263 shares of our common stock upon the exercise of options granted under the 2007 option plan, options to purchase 15,304,554 shares of common stock had been issued and were outstanding under the plan and 27,533,471 shares of common stock remained available for issuance under the plan. Our board of directors has determined that, upon the effectiveness of the registration statement of which this prospectus forms a part, no further options will be granted under our 2007 option plan.

Eligibility. Only our employees, our directors, our consultants and other key persons are eligible to participate in our 2007 option plan. We may grant incentive stock options only to employees.

Administration. Our board of directors administers the 2007 option plan. Our board, however, may delegate this authority to a committee of one or more directors. The party administering our 2007 option plan, whether it is our board of directors or a committee appointed by our board of directors, is referred to under the 2009 option plan as the "committee". Subject to the provisions of the 2007 option plan and the rules of any stock exchange on which shares of our common stock may be listed, the committee has complete authority to interpret the 2007 option plan, to prescribe, amend and rescind rules and regulations relating to it, to determine who will receive stock options, to determine the terms and provisions of the respective option agreements (which need not be identical), and to make all other determinations necessary or advisable for the administration of the 2007 option plan.

Stock Options. We grant incentive and nonstatutory stock options under the plan pursuant to incentive and nonstatutory stock option agreements. The committee determines who will receive stock options, whether the stock options will be incentive or nonstatutory stock options, and the number of stock options to be granted. The committee determines the exercise price for a stock option, consistent with the terms and conditions of the 2007 plan and applicable law. The exercise price of any incentive stock option cannot be less than 100% of the fair market value of our common stock on the date of grant. Under the 2007 option plan, "fair market value" means the value of a share of the Company's common stock on any date as determined by the committee. The exercise price for stock options shall be paid in the form of cash or certified or bank check, or consideration received by us under a cashless exercise program if implemented by us in connection with the 2007 option plan and if permitted by the rules of any stock exchange on which shares of our common stock may be listed. Options granted under the 2007 option plan vest at the rate determined by the committee and specified in each stock option agreement. The committee determines the term of stock options granted under the 2007 option plan, which can be up to ten years, except in the case of certain incentive stock options, which may have a term of up to five years. Unless an option agreement provides otherwise, if an optionee's employment with the Company is terminated for any reason, whether voluntary or otherwise, the optionee, or his or her beneficiary, may exercise any vested options for a period of 30 days from the date of termination of service. An optionee may not exercise an option beyond the expiration of its term.

Adjustment of Shares. In the event that we have a specified type of change in our capital structure, such as, a stock split, stock dividend, recapitalization, spin-off, reclassification or similar occurrence, then the committee must appropriately adjust the number of shares reserved under the 2007 option plan, as well as the numbers of shares covered by each outstanding award and the exercise prices or purchase prices, if applicable, of all outstanding stock awards under the 2007 option plan.

Consolidation or Merger. In the event of any consolidation or merger of the Company with or into another company or in case of any sale or conveyance to another company or entity of the property of the Company as a whole or substantially as a whole, shares of stock or other securities equivalent in kind and value to those shares and other securities an optionee would have received if he or she had held the full number of shares of common stock remaining subject to the option immediately prior to such consolidation, merger, sale or conveyance and had continued to hold those shares (together with all other shares, stock and securities thereafter issued in respect thereof) to the time of the exercise of the option shall thereupon be subject to the option. However, unless any option agreement shall provide different or additional terms, in any such transaction the committee, in its discretion, may provide instead that any outstanding option shall terminate, to the extent not exercised by the optionee prior to termination, either (a) at the close of a period of not less than ten (10) days specified by the committee and commencing on the committee's delivery of written notice to the optionee of its decision to terminate such option without payment of consideration as provided in the following clause or (b) as of the date of the transaction, in consideration of the Company's payment to the optionee of an amount of cash equal to the difference between the aggregate fair market value of the shares of common stock for which the option is then exercisable and the aggregate exercise price for such shares under the option.

Other Terms. Whenever shares are to be issued in satisfaction of an option granted under our 2007 option plan, the Company shall have the right to require the optionee to remit to the Company an amount sufficient to satisfy federal, state, local or other withholding tax requirements if and to the extent required by law (whether so required to secure for the Company an otherwise available tax deduction or otherwise) prior to the delivery of any certificate or certificates for such shares. An optionee may not transfer a stock option granted under our 2007 option plan other than by will or the laws of descent and distribution, and each option is exercisable, during the lifetime of the optionee, only by the optionee. Shares issued upon exercise of an option may be subject to forfeiture conditions, rights of repurchase, rights of first refusal and other transfer restrictions as determined by the committee and as set forth in the stock option agreement.

Amendment and Termination. Subject to compliance with the rules of any stock exchange on which shares of our common stock may be listed, the 2007 option plan may be amended, altered, suspended or terminated by our board of directors at any time. We may not alter the rights and obligations under any option granted before amendment of the 2007 option plan without the written consent of the affected optionee. Our board of directors has determined that, upon the effectiveness of the registration statement of which this prospectus forms a part, no further options will be granted under our 2007 option plan.

2009 Stock Option Plan

Our 2009 stock option plan has been approved by our board of directors and stockholders and will become effective as of the time the registration statement of which this prospectus forms a part is declared effective by the SEC. An aggregate of 37,000,000 shares of our common stock are reserved for issuance under the 2009 option plan, No options have been granted under our 2009 option plan. At the closing of this offering, we intend to grant to each of our four new non-employee directors an option to purchase 300,000 shares of our common stock at an exercise price per share equal to the initial public offering price per unit. These options will be 50% vested immediately on grant and the balance will vest ratably, on a monthly basis, over the next 12 months.

Shares Available for Awards. The total number of shares of our common stock that may be subject to awards under our 2009 option plan is 37,000,000 shares. At the closing of this offering, we intend to grant to each of our four new non-employee directors an option to purchase 300,000 shares of our common stock at an exercise price per share equal to the initial public offering price per unit. These options will be 50% vested immediately on grant and the balance will vest ratably, on a monthly basis, over the next 12 months. If these options are granted, an additional 35,800,000 shares will be available for issuance under the 2009 option plan.

Eligibility. The persons eligible to receive awards under our 2009 option plan are our officers, directors, employees and independent contractors who render consulting or advisory services to us and those of our subsidiaries. An employee on leave of absence may be considered as still in our employ or in the employ of one of our subsidiaries for purposes of eligibility for participation in our 2009 option plan.

Administration. Our 2009 option plan provides that it shall be administered by our board of directors or a committee appointed by our board of directors, which committee shall be constituted to comply with applicable laws. The party administering our 2009 option plan, whether it is our board of directors or a committee appointed by our board of directors, is referred to under the 2009 option plan as the “administrator”. Subject to the terms of our 2009 option plan, the administrator is authorized to select eligible persons to receive awards, determine the type and number of awards to be granted and the number of shares of our common stock to which awards will relate, specify times at which awards will be exercisable or settleable (including performance conditions that may be required as a condition thereof), set other terms and conditions of awards, prescribe forms of award agreements, interpret and specify rules and regulations relating to our 2009 option plan and make all other determinations that may be necessary or advisable for the administration of our 2009 option plan. Our board of directors has designated the compensation committee of the board to act as the administrator of our 2009 option plan.

Stock Options. The administrator is authorized to grant stock options, including both incentive stock options or ISOs, which can result in potentially favorable tax treatment to the participant, and nonstatutory stock options. 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 nonstatutory 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 provided that if stock options are granted within 90 days of a distribution by way of prospectus, the exercise price must not be less than the offering price under the prospectus. For purposes of our 2009 option plan, the term "fair market value" means, as of any date, the value of our common stock determined as follows: (1) if our common stock is listed on any established stock exchange or a national market system, its fair market value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day prior to the date of grant, as reported in The Wall Street Journal or such other source as the administrator deems reliable; (2) if our common stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its fair market value shall be the mean between the high bid and low asked prices for our common stock on the day of determination; or (3) in the absence of an established market for our common stock, the fair market value thereof shall be determined in good faith by the administrator. The maximum term of each option, the times at which each option will be exercisable, and provisions requiring forfeiture of unexercised options at or following termination of employment or service generally are fixed by the administrator except that no option may have a term exceeding ten years. The exercise price for stock options shall be paid using such method of payment as shall be determined by the administrator, including, without limitation: (1) cash or check (2) pursuant to a broker-assisted cashless exercise program developed under Regulation T promulgated by the Federal Reserve Board if permitted by the rules of any stock exchange on which shares of our common stock may be listed; or (3) any combination of the foregoing methods of payment. Grants of stock options are subject to the limitation that, in any 12 month period, no individual may receive options to purchase shares of our common stock in excess of 5% of the number of shares of our common stock then outstanding and no individual who is a consultant or engaged in investor relations activities may receive options to purchase shares of our common stock in excess of 2% of the number of shares of our common stock then outstanding.

Adjustment of Shares. In the event that we have a specified type of change in our capital structure, such as a stock split, stock dividend, recapitalization, spin-off, reclassification or similar occurrence, then the administrator must appropriately adjust the number of shares reserved under the 2009 option plan, as well as the numbers of shares covered by each outstanding award and the exercise prices or purchase prices, if applicable, of all outstanding stock awards under the 2009 option plan.

Other Terms of Awards. The administrator may institute an exchange program which is a program under which (1) outstanding awards are surrendered or cancelled in exchange for awards of the same type (which may have lower exercise prices and different terms), awards of a different type, and/or cash, and/or (2) the exercise price of an outstanding award is reduced, but subject to such approvals as may be required by any stock exchange on which shares of our common stock may be listed. The terms and conditions of any exchange program will be determined by the administrator in its sole discretion. The administrator may to allow participants to satisfy withholding tax obligations by electing to have the Company withhold from the shares of our common stock to be issued upon exercise of an award that number of shares of common stock having a fair market value equal to the minimum amount required to be withheld. Awards may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or the laws of descent and distribution, and may be exercised during the lifetime of the participant, only by the participant. Awards under our 2009 option plan are generally granted without a requirement that the participant pay consideration in the form of cash or property for the grant (as distinguished from the exercise), except to the extent required by law. The administrator may, however, grant awards in exchange for other awards under our 2009 option plan awards or under our other plans, or other rights to payment from us, and may grant awards in addition to and in tandem with such other awards, rights or other awards.

Acceleration of Vesting; Change in Control. The administrator may, in its discretion, but subject to such approvals as may be required by any stock exchange on which shares of our common stock may be listed, accelerate the exercisability, the lapsing of restrictions or the expiration of vesting periods of any award. In the event of a merger of the Company with or into another corporation, or a "change in control" of the Company, as defined in our 2009 option plan, each outstanding award shall be assumed or an equivalent award substituted by the successor corporation or a parent or subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the award, the participant will fully vest in and have the right to exercise all of his or her outstanding options and stock purchase rights, including shares of our common stock as to which such awards would not otherwise be vested or exercisable, all restrictions on restricted stock will lapse, and all outstanding restricted stock units will fully vest. In addition, the administrator may provide in an award agreement that the

performance goals relating to any performance based award will be deemed to have been met upon the occurrence of any change in control.

Amendment and Termination. Our board of directors may amend, alter, suspend, or terminate our 2009 option plan at any time without further stockholder approval, except stockholder approval must be obtained for any amendment or alteration if such approval is required by law or regulation or under the rules of any stock exchange or quotation system on which shares of our common stock are then listed or quoted. Thus, stockholder approval may not necessarily be required for every amendment to our 2009 option plan which might increase the cost of our 2009 option plan or alter the eligibility of persons to receive awards. Stockholder approval will not be deemed to be required under laws or regulations, such as those relating to ISOs, that condition favorable treatment of participants on such approval, although our board of directors may, in its discretion, seek stockholder approval in any circumstance in which it deems such approval advisable. Unless earlier terminated by our board of directors, our 2009 option plan shall continue in effect for a term of ten years from the later of (1) the effective date of our 2009 option plan, or (2) the earlier of the most recent board of directors or stockholder approval of an increase in the number of shares of our common stock reserved for issuance under our 2009 option plan.

Incentive Bonus Plan

Our board of directors has adopted an incentive bonus plan under which Paul J. Travers, our Chief Executive Officer and President, and Grant Russell, our Chief Financial Officer and Executive Vice President, may be awarded cash bonuses based upon increases in our sales and improvements in our profitability in 2009 compared to 2008. Under the plan, Mr. Travers will be entitled to a cash bonus of 0.50% of his base salary for each 1.0% increase in our sales and Mr. Russell will be entitled to a cash bonus of 0.35% of his base salary for each 1.0% increase in our sales, provided however, that no bonus shall be paid unless our sales increase by at least 20%, the amount paid for increases in our sales to Mr. Travers shall not exceed 100% of his base salary and the amount paid to Mr. Russell shall not exceed 70% of his base salary. Additionally, but only if our 2009 sales are equal to or greater than our 2008 sales, Mr. Travers and Mr. Russell will each be entitled to a bonus of 15% of their respective base salaries if our operating loss for 2009 is less than $1,000,000 or a bonus of 30% of their respective base salaries if our operating income for 2009 is more than zero but less than 3% of our sales for 2009. If our operating income for 2009 is more than 3% of our sales for 2009, Mr. Travers and Mr. Russell will each be entitled to an additional cash bonus based upon the our 2009 operating income as a percentage of our 2009 sales. In Mr. Traver's case, the bonus will be determined by multiplying his base salary by 10 times our 2009 operating income expressed as a percentage of our 2009 sales. In Mr. Russell's case, the bonus will be determined by multiplying his base salary by 7.5 times our 2009 operating income expressed as a percentage of our 2009 sales. However, the amount paid to Mr. Travers shall not exceed 100% of his base salary and the amount paid to Mr. Russell shall not exceed 75% of his base salary.

Other Benefits

We believe establishing competitive benefit packages for our employees is an important factor in attracting and retaining highly qualified personnel. Executive officers are eligible to participate in all of our employee benefit plans, such as medical, dental, vision, group life and accidental death and dismemberment insurance and our 401(k) plan, in each case on the same basis as other employees. While our 401(k) plan does permit us to make discretionary contributions and matching contributions, subject to established limits and a vesting schedule, we have not made any discretionary or matching contributions to the plan on behalf of any participating employees since its inception in 2007.

Perquisites

In general, we do not provide significant perquisites to our employees. As a result, the cost to us of any perquisites is minimal. We reimburse our President and Chief Executive Officer and our Chief Financial Officer for the costs of an automobile at the rate of $750 per month. We also provide our Chief Financial Officer, whose primary residence is in Vancouver, British Columbia, the option to receive portions of his regular salary as a housing allowance at the rate prescribed by the Internal Revenue Service, for the maintenance of a second residence in Rochester, New York. Payment of such allowance is deductible by us for federal income tax purposes in the same

manner as compensation. We also reimburse the costs of our Chief Financial Officer's flights that are direct to and from his residence in Vancouver Canada and Rochester, New York.

The board of directors or its compensation committee may at any time choose not to implement, amend, suspend, discontinue or terminate the annual incentive or profit sharing plan.

Outstanding Equity Awards at Fiscal Year End

The following table sets forth information concerning exercisable and unexercisable options and stock awards that has not vested for each of the named executive officers that is outstanding as of December 31, 2008. We have not granted any stock awards.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	Option Awards				
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date
Paul Travers	188,576	—	—	$0.00875	9/03/12
	1,485,232	—	—	$0.02599	1/03/13
Grant Russell	174,256	—	—	$0.00875	9/03/12

Options to Purchase Securities

The following chart sets out, as at the date of this prospectus, information regarding outstanding options to purchase shares of our common stock which have been granted to our directors, executive officers, employees, consultants, past directors, executive officers, employees and consultants.

Relationship to the Corporation	Number of Options(1)	Securities Under Option	Grant Date	Expiry Date(2)	Exercise Price(3)	Market Value of Common Shares on Date of Grant
All directors and past directors of Vuzix (4 individuals in total)	3,365,224	common stock	November 1, 2001 to May 1, 2009	November 1, 2011 to May 1, 2019	$0.0608	(4)
All executive officers and past executive officers of Vuzix (3 individuals in total — all included in the above grouping also)	2,222,320	common stock	September 3, 2002 to May 1, 2009	September 3, 2002 to May 1, 2019	$0.0355	(4)
All other employees or past employees of Vuzix (48 individuals in total)	8,973,642	common stock	September 30, 2000 to May 1, 2009	September 30, 2010 to May 1, 2019	$0.1373	(4)
All consultants and past consultants of Vuzix (24 individuals in total)	6,821,587	common stock	March 30, 2000 to May 1, 2009	June 30, 2009 to May 1, 2019	$0.1539	(4)
Other (none)	—	—	—	—	—	—

(1) Represents the aggregate number of shares issuable upon exercise of all outstanding options and warrants held by the group. Except for warrants exercisable to purchase an aggregate of 3,855,899 shares of our common stock held by our current and former consultants, all the securities disclosed in this table are options granted under our 2007 plan.

(2) All options granted under our 2007 plan expire ten years from the date of grant. Warrants expire between two and five years from the date of issuance with a weighted average remaining term of 0.99 years.

(3) Represents the weighted average exercise price of all outstanding options and warrants held by the members of the group. Individual exercise prices range: (i) for directors, from $0.0088 to $0.2334; (ii) for executive officers,

from $0.0088 to $0.1500; (iii) for employees, from $0.0061 to $0.2334; and (iv) for consultants, from $0.0061 to $0.2333.

(4) All options and warrants are exercisable at the fair market value of our common stock as of the date of grant as determined by our board of directors.

Potential Payments upon Termination or Change in Control

We have entered into an agreement with each of Paul Travers and Grant Russell that would require us to provide compensation to them in the event of a termination of employment or a change in control. See "Employment Agreements" above.

Their employment agreements entitle them to severance payments upon their termination by us other than for "cause" (as defined in the agreement) or by them for "good reason" (as defined in the agreement) or upon their death or "disability" (as defined in the agreement). Under the agreements: (a) we shall have "cause" to terminate them as a result of their: (i) willfully engaging in conduct which is materially injurious to us; (ii) willful fraud or material dishonesty in connection with their performance as an employee; (iii) deliberate or intentional failure to substantially perform their duties as employees that results in material harm to us; or (iv) conviction for, or plea of *nolo contendere* to a charge of, commission of a felony; (b) they shall have "good reason" to terminate their employment upon: (i) a material diminution during the term of the agreements in their duties, responsibilities, position, office or title; (ii) a breach by us of the compensation and benefits provisions of their agreements; (iii) a material breach by us of any other terms of their agreements; or (iv) the relocation of their principal place of business at our request beyond 30 miles from its current location; and (c) they shall be deemed to be "disabled" if they shall be rendered incapable of performing their duties to us by reason of any medically determined physical or mental impairment that can be expected to result in death or that can reasonably be expected to last for a period of either (i) six or more consecutive months from the first date of their absence due to the disability or (ii) nine months during any 12-month period. Any termination by us for cause or by them for good reason is subject to a 30-day notice period and opportunity to cure.

In the event that their employment is terminated by us other than for cause, by them for good reason or upon their death or disability, Mr. Travers and Mr. Russell shall be entitled to be paid, in addition to any base salary and bonuses then accrued and unpaid, and their then current base salary for 24 months after the date of termination and the entire bonus that would have been payable pursuant to any agreement, understanding, arrangement or plan in which he is entitled to participate for the year in which the termination of his employment occurred as if they had been employed for the entire year, provided that, in the opinion of the board of directors, they are likely to have met any bonus plan goals for the relevant period had they not been terminated. As a condition to our obligation to make any such payment, we, in our sole discretion, may require Mr. Travers and Mr. Russell to release us and our officers, directors, employees, and agents, from any and all claims and causes of action, including, but not limited to those arising from their employment and the termination of their employment. In the event of such termination, all stock options, restricted stock grants, stock appreciation rights and other similar awards held by them at the date of termination shall immediately vest, the period during which any options or rights relating to such grants may be exercised shall be the longer of the date specified in such grants or the date that is thirty (30) days after the end of the 24-month period following the date of termination and will, in all other respects, continue to be governed by, and continued in accordance with, their applicable plan and grant documents.

Under their employment agreements, "change of control" means: (i) the approval by our stockholders, and the completion of the transaction resulting from such approval, of (A) the sale or other disposition of all or substantially all our assets or (B) our complete liquidation or dissolution; (ii) the sale, in a single transaction or in a series of related transactions, of all or substantially all of the outstanding shares of our capital stock; (iii) the approval by our stockholders, and the completion of the transaction resulting from such approval, of a merger, consolidation, reorganization or similar corporate transaction, whether or not we are the surviving corporation in such transaction, in which the outstanding shares of common stock are converted into (A) shares of stock of another company, other than a conversion into shares of voting common stock of the successor corporation (or a holding company thereof) representing fifty percent (50%) or more of the voting power of all capital stock thereof outstanding immediately after the merger or consolidation or (B) other securities (either ours or those of another company) or cash or other property; (iv) pursuant to an affirmative vote of a holder or holders of seventy five percent (75%) of our capital stock

of the entitled to vote on such a matter, the removal of a majority of the individuals who are at that time members of the board of directors; or (v) the acquisition by any entity or individual of one hundred percent of our capital stock.

In the event of a change of control, any unvested stock options held by Mr. Travers or Mr. Russell shall be fully vested and become immediately exercisable. Such options shall remain exercisable for the period remaining under the relevant stock option agreement and shall not have a shortened period of exercisability as a result of the change of control, except for statutory stock options which shall, at their election, (i) expire 90 days after their termination (or one year after their termination upon their death or permanent and total disability) or (ii) be converted into non-qualified stock options expiring at the end of the entire term of such option under the relevant stock option agreement. Additionally, if Mr. Travers or Mr. Russell is terminated within one year of a change of control for any reason other than by us for cause, or if they elect to terminate their employment (whether or not for good reason) after the expiration of 120 days after and on or before the two-year anniversary of a change of control, Mr. Travers and Mr. Russell shall be entitled to be paid, in addition to any base salary and bonuses then accrued and unpaid, their then current base salary for 48 months after the date of termination and the entire bonus that would have been payable pursuant to any agreement, understanding, arrangement or plan in which they are entitled to participate for the year in which the termination of their employment occurred as if they had been employed for the entire year, provided that, in the opinion of the board of directors, they are likely to have met any bonus plan goals for the relevant period had he not been terminated.

Compensation of Directors

The following table sets forth information concerning the compensation for the fiscal year ended December 31, 2008 of our directors and directors elect who are not also named executive officers:

DIRECTOR COMPENSATION — YEAR ENDED DECEMBER 31, 2008

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Robert F. Mechur(2)	—	—	$1,081	—	—	—	$1,081
William Lee(3)	—	—	—	—	—	—	—
Frank Zammataro(4)	—	—	—	—	—	—	—
Kathryn Sayko(4)	—	—	—	—	—	—	—
Bernard Perrine(4)	—	—	—	—	—	—	—

(1) The amounts shown in this column represent the dollar amounts recognized for share-based compensation expense for financial statement reporting purposes for stock options granted in 2008 and unvested stock options granted in prior years in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment,* but without giving effect to estimated forfeitures related to service-based vesting conditions. The assumptions used to compute the fair value are disclosed in note 18 (Stock-based Compensation Expense) to our audited financial statements for the fiscal year ended December 31, 2008 included in this prospectus.

(2) Resigned from our board of directors in June 2009.

(3) Elected to our board of directors in June 2009.

(4) Elected, and has agreed to serve, as a member of our board of directors upon the effectiveness of the registration statement of which this prospectus forms a part.

During 2008, no cash director fees were earned by or paid to any non-management member of the board of directors but each of our nonemployee directors was reimbursed for ordinary expenses incurred in connection with attendance at meetings of the board of directors. In the future, to recruit and maintain qualified directors we believe that we will likely have to begin paying annual retainers, board committee membership and board meeting fees. It is not expected that such fees will be paid to any directors who are also our employees.

At the closing of this offering, we intend to grant to each of William Lee, Frank Zammataro, Kathryn Sayko and Bernard Perrine, our four new non-employee directors, an option to purchase 300,000 shares of our common stock at an exercise price per share equal to the initial public offering price per unit. These options will be 50% vested immediately on grant and the balance will vest ratably, on a monthly basis, over the next 12 months. Our 2007 option plan provided for each incoming non-employee director to be granted an option to purchase 250,000 shares of our common stock at the fair market value per share as of the date of grant and an annual grant of 125,000 shares of common stock. These options were exercisable at the fair market value of our common stock as of the date of grant and vested, in the case of the initial grant, 50% immediately on grant and the balance ratably, on a monthly basis, over the next 12 months, and in the case of the annual grant, on December 31 in the year granted.

Compensation Committee Interlocks and Insider Participation

During 2007 and 2008, Paul J. Travers, our President and Chief Executive Officer, participated in deliberations of our board of directors concerning executive compensation.

RELATED PARTY TRANSACTIONS

Since January 1, 2006, we have entered into the following transactions in which our directors, executive officers or holders of more than 5% of our capital stock had or will have a direct or indirect material interest. The following transactions do not include compensation, termination and change-in-control arrangements, which are described under "Management." We believe the terms obtained or consideration that we paid or received, as applicable, in connection with the transactions described below were comparable to terms available or the amounts that would be paid or received, as applicable, in arm's-length transactions. Except as described below, we are not aware, after enquiring with our directors and officers, of any material interest, direct or indirect, of any our directors, executive officers, principal stockholders, or any associate or affiliate thereof, in any transaction within the last three years, or in any proposed transaction, that has materially affected or will materially affect our company.

Officer Loan

In October 2002, we entered into a stock purchase agreement with four of our employees, including Grant Russell, our Chief Financial Officer and Executive Vice President, pursuant to which they purchased an aggregate of 32,537,135 shares of common stock at an aggregate purchase price of $276,566 or $0.0085 per share. Of these shares, Mr. Russell purchased 8,339,644 shares at an aggregate purchase price of $58,378. In order to finance the purchase of these shares, we loaned each employee an amount equal to the purchase price for the shares he purchased. Each loan was evidenced by a non-recourse promissory note and was secured by a pledge of the shares purchased. Each loan bore interest at the rate of 6% per annum, and all principal and interest was originally due and payable in September 2007. In September 2007, we extended the maturity date of each note until September 2012. In April 2009, we forgave the entire amount of Mr. Russell's indebtedness under this loan in payment of a one-time bonus in consideration of Mr. Russell's efforts in connection with this offering. At that time, the outstanding principal amount of the note payable by Mr. Russell together with all interest accrued thereon was $81,046. The aggregate outstanding principal amount of the notes payable by the employees other than Mr. Russell, together with all interest accrued thereon as of June 30, 2009, was approximately $227,336.

Related Party Loan

On September 19, 2006, we borrowed $500,000 from Sally Hyde Burdick and issued Ms. Burdick a convertible promissory note in the principal amount of $500,000 in evidence of the loan. Interest on the outstanding principal amount of the note originally accrued at the annual rate of 10.0%. At the time of the loan, Ms. Burdick held 85,712 shares of our common stock (or less than 0.1% of our common stock then outstanding) and was otherwise unaffiliated with us. In consideration of the loan we issued to Ms. Burdick a warrant exercisable upon conversion of the note to purchase up to that number of shares of our common stock equal to the principal amount of and accrued interest on the promissory note then converted divided by 0.5334, exercisable at $0.35 per share for three years from the date of the issue of the promissory note. This warrant expired on September 30, 2009. The outstanding principal amount of the note, together with all accrued and unpaid interest thereon, is convertible at the option of the holder into shares of

our common stock at the rate of $0.2667 per share. The outstanding principal amount of the note together with $118,493 accrued and unpaid interest thereon was due and payable on January 31, 2009. As of that date, Ms. Burdick was the beneficial owner of 3,541,080 shares of our common stock (including 2,319,059 shares issuable upon conversion of the note and 1,136,309 shares issuable upon exercise of the warrant issued in consideration of the loan) or approximately 1.6% of our common stock then outstanding. As of the date of this prospectus, Ms. Burdick has not demanded payment of the note. In consideration of her forbearance to demand payment of the note, since January 31, 2009 we have made monthly payments to Ms. Burdick of interest only on the principal amount of the note at the annual rate of 18.0%. We intend to pay the outstanding principal amount of the note in full, together with all interest accrued and unpaid thereon, from the proceeds of this offering. We may not receive sufficient proceeds from this offering to repay this indebtedness.

Revolving Loan Agreement

In October 2008, we entered into a revolving loan agreement with Paul J. Travers, our President and Chief Executive Officer, pursuant to which Mr. Travers agreed to loan us such amounts as we may request and he may agree from time to time until December 31, 2010. Interest accrues on the principal amount outstanding under the agreement at the annual rate of 12.0% and is payable on demand. As security for our obligations under the loan agreement, we granted Mr. Travers a security interest in all of our assets. The principal amount outstanding under this loan agreement on the date of this prospectus is $165,500. We plan to the repay the entire principal amount outstanding under this agreement, together with all interest accrued thereon, from the proceeds of this offering. We may not receive sufficient proceeds from this offering to repay this indebtedness.

Payment of Deferred Compensation and Shareholder Loans

In June 2009, we agreed with Mr. Travers and Grant Russell, our Executive Vice President and Chief Financial Officer, that we will pay them deferred compensation in the aggregate amounts of $445,096 and $209,208, respectively, plus interest at the annual rate of 8.0%, and for the repayment of loans made to us more than five years ago by those officers to finance our operations, either in one lump sum on or before the first anniversary of the closing of this offering from the proceeds of the exercise of the warrants included in the units and the warrants issuable upon exercise of the agents' compensation options if and when at least 50% of those warrants are exercised or otherwise in 12 equal monthly installments beginning on the first anniversary of the closing of this offering until paid in full. Any excess proceeds from any exercise of the warrants included in the units and the warrants issuable upon exercise of the agents' compensation options will be used for working capital. Assuming that we raise minimum gross proceeds of Cdn$6,000,000 by selling 40,000,000 units at the initial public offering price of Cdn$0.15 per unit (the minimum of our estimated initial public offering price range) and that we sell the maximum number of units offered (50,000,000 units) at Cdn$0.25 per unit (the maximum of our estimated initial public offering price range), if all of these warrants were to be exercised we would receive additional funds totaling between approximately Cdn$4,500,000 and Cdn$9,375,000, respectively. These warrants may not be exercised before they expire.

Indemnification Agreements

We have entered into a standard form of indemnification agreement with each of our directors and executive officers. Under this agreement we are obligated to indemnify the indemnitee to the fullest extent permitted by applicable law for all reasonable expenses (including attorneys' fees and disbursements), judgments, fines (including excise taxes and penalties) and amounts paid in settlement actually and reasonably incurred by the indemnitee arising out of or connected with the indemnitee's service as a director or officer and indemnitee's service in another capacity at our request or direction. We are also obligated to advance all reasonable and actual expenses incurred by the indemnitee in connection with any action, suit, proceeding or appeal with respect to which he is entitled to be indemnified upon our receipt of an invoice for such expenses. Our obligation to advance expenses is subject to the indemnitee's execution, upon our request, of an agreement to repay all such amounts it if is ultimately determined that he is not entitled to be indemnified by us under applicable law. If a claim for indemnification under this agreement may not be paid to the indemnitee under applicable law, then in any action in which we are jointly liable with the indemnitee, we are obligated to contribute to the amount of reasonable expenses (including attorneys' fees and disbursements) actually and reasonably incurred by the indemnitee in proportion to the relative

benefits received by us and the indemnitee from the transaction from which such action arose, and our relative fault and that of the indemnitee in connection with the events which resulted in such expenses. The rights of an indemnitee under the form of indemnification agreement are in addition to any other rights that the indemnitee may have under our certificate of incorporation or bylaws, any agreement, or any vote of our stockholders or directors. We are not obligated to make any payment under the form of indemnification agreement to the extent payment is actually made to the indemnitee under an insurance policy or any other method outside of the agreement.

Related-Person Transactions Policy

Pursuant to our Code of Ethics and Business Conduct, all employees, officers and directors of ours and our subsidiaries are prohibited from engaging in any relationship or financial interest that is an actual or potential conflict of interest with us without prior approval. Employees are required to disclose any potential or actual conflicts with supervisors or our ethics compliance officer if one has been appointed by the board and otherwise directly to the members of our board of directors. Officers and directors are required to disclose any potential or actual conflicts to our board of directors.

Our board of directors reviews and approves all transactions with directors, officers, and holders of five percent or more of our voting securities and their affiliates, or each, a related party. Prior to our board of directors' consideration of a transaction with a related party, the material facts as to the related party's relationship or interest in the transaction are disclosed to our board of directors, and the transaction is not considered approved by our board of directors unless a majority of the directors who are not interested in the transaction approve the transaction. Further, when stockholders are entitled to vote on a transaction with a related party, the material facts of the related party's relationship or interest in the transaction are disclosed to the stockholders, who must approve the transaction in good faith.

All future transactions between us and any of our officers and directors or their respective affiliates will be on terms believed by us to be no less favorable to us than are available from unaffiliated third parties. Such transactions, including any forgiveness of loans, will require prior approval by a majority of the members of our board who do not have an interest in the transaction and who had access, at our expense, to our attorneys or independent legal counsel. We will not enter into any such transaction unless our disinterested independent directors or disinterested directors determine that the terms of such transaction are no less favorable to us than those that would be available to us with respect to such a transaction from unaffiliated third parties.

CORPORATE GOVERNANCE

Board of Directors

Our board of directors currently consists of three members: Paul J. Travers, our President and Chief Executive Officer, Grant Russell, our Chief Financial Officer and Executive Vice President and William Lee. Frank Zammataro, Kathryn Sayko and Bernard Perrine have each been elected, and have agreed to serve, as a member of our board of directors subject to the effectiveness of the registration statement of which this prospectus forms a part. Our board has determined that each of our directors and directors elect other than Mr. Travers and Mr. Russell is, or will be upon the effective time of their election be, an independent director as defined by Rule 5605(a)(2) of the NASDAQ Stock Market LLC (NASDAQ). We believe that, upon the effectiveness of the of the registration statement of which this prospectus forms a part, we will be compliant with the independence criteria for boards of directors under applicable laws and regulations, including NASDAQ Rule 5605(a)(2). The board may meet independently of management as required. Although they are permitted to do so, the independent directors have not held regularly scheduled meetings at which non-independent directors and members of management are not in attendance.

Committees of the Board of Directors

Subject to the effectiveness of the registration statement of which this prospectus forms a part, we have established an audit committee, a compensation committee and a nominating committee.

Audit Committee

Upon the effectiveness of the of the registration statement of which this prospectus forms a part, our audit committee will consist of William Lee, Kathryn Sayko and Bernard Perrine, each of whom will then be a non-employee director. Mr. Lee will be the chairperson of our audit committee. Our board of directors has determined that each member designee of our audit committee will be an independent director as defined by NASDAQ Rule 5605(a)(2) and will meet the requirements of financial literacy under SEC rules and regulations. Mr. Lee will serve as our audit committee financial expert, as defined under SEC rules.

Our audit committee will be responsible for, among other things:

- selecting and hiring our independent auditors, and approving the audit and non-audit services to be performed by our independent auditors;
- evaluating the qualifications, performance and independence of our independent auditors;
- monitoring the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters;
- reviewing the adequacy and effectiveness of our internal control policies and procedures;
- discussing the scope and results of the audit with the independent auditors and reviewing with management and the independent auditors our interim and year-end operating results; and
- preparing the audit committee report that the SEC requires in our annual proxy statement.

Our board of directors has adopted a written charter for our audit committee, which will be available on our website upon the completion of this offering.

Compensation Committee

Upon the effectiveness of the of the registration statement of which this prospectus forms a part, our compensation committee will consist of Kathryn Sayko, Bernard Perrine and Frank Zammataro, each of whom will then be a non-employee director. Ms. Sayko will be the chairperson of our compensation committee. Our board of directors has determined that each member designee of our compensation committee will be an independent director as defined by NASDAQ Rule 5605(a)(2).

Our compensation committee will be responsible for, among other things:

- reviewing and approving compensation of our executive officers including annual base salary, annual incentive bonuses, specific goals, equity compensation, employment agreements, severance and change in control arrangements, and any other benefits, compensations or arrangements;
- reviewing and recommending compensation goals, bonus and stock compensation criteria for our employees;
- reviewing and discussing annually with management our “Compensation Discussion and Analysis” disclosure required by SEC rules;
- preparing the compensation committee report required by the SEC to be included in our annual proxy statement; and
- administering, reviewing and making recommendations with respect to our equity compensation plans.

Our board of directors has adopted a written charter for our compensation committee, which will be available on our website upon the completion of this offering.

Nominating Committee

Upon the effectiveness of the of the registration statement of which this prospectus forms a part, our nominating committee will consist of William Lee and Frank Zammataro, each of whom will then be a non-employee member of our board of directors. Mr. Zammataro will be the chairperson of our nominating committee. Our board of directors has determined that each member designee of our nominating committee will be an independent director as defined by NASDAQ 5605(a)(2).

Our nominating committee will be responsible for, among other things:

- assisting our board of directors in identifying, interviewing and recruiting prospective director nominees;
- recommending director nominees;
- establishing and reviewing on an annual basis a process for identifying and evaluating nominees for our board of directors;
- annually evaluating and reporting to the our board of directors on the performance and effectiveness of the board of directors;
- recommending members for each board committee of our board of directors; and
- annually presenting a list of individuals recommended for nomination for election to our board of directors at the annual meeting of our shareholders.

Our board of directors has adopted a written charter for our nominating committee, which will be available on our website upon the completion of this offering.

Canadian Governance Matters

Generally

The Canadian Securities Administrators have published National Policy 58-201 — Corporate Governance Guidelines. These instruments set out a series of guidelines and requirements for effective corporate governance and in this prospectus we refer to them collectively as the "Guidelines." The Guidelines address matters such as the constitution and independence of corporate boards, the functions to be performed by boards and their committees and the effectiveness and education of board members.

Independence

Our board of directors has determined that each of our directors and directors elect other than Mr. Travers and Mr. Russell is, or will be upon the effective time of his or her election, independent for the purpose of National Instrument 58-101 — Disclosure of Corporate Governance Practices.

Except as described below, our directors and directors elect hold no other directorships at the present time with other reporting issuers:

Director Name and Municipality of Residence	Other Directorships
William Lee, Vancouver, British Columbia	Tinka Resources Limited Halo Resources Ltd. Golden Peaks Resources Ltd.

Orientation and Continuing Education

Our board of directors is responsible for the orientation and education of new members of the board and all new directors are provided with copies of our policies. Prior to joining the board, each new director will meet with our Chief Executive Officer. Our Chief Executive Officer is responsible for outlining our business and prospects, both positive and negative, with a view to ensuring that the new director is properly informed to commence their duties as a director. Each new director is also given the opportunity to meet with our auditors and counsel. As part of its annual self-assessment process, our board of directors determines whether any additional education and training is required for board members.

Ethical Business Conduct

The directors encourage and promote a culture of ethical business conduct through communication and supervision as part of their overall stewardship responsibility. In addition, our board of directors has adopted a code of ethics and business conduct for our employees, officers and directors which addresses our continuing commitment to conducting business with highest integrity and in accordance with applicable laws, rules and regulations. Our code of ethics and business conduct establishes procedures that allow our directors, officers and employees to

confidentially submit their concerns to our ethics officer or to our audit committee regarding questionable ethical, moral, accounting or auditing matters, without fear of retaliation. A copy of our code of ethics and business conduct will be available on our website and at www.sedar.com upon the completion of this offering.

Nomination of Directors

Historically, because of our size and stage of development and the limited number of directors, the entire board of directors has taken responsibility for nominating new directors and assessing current directors. As of the closing of this offering, nominees for election to our board of directors will be identified, interviewed and recruited by our nominating committee. For additional information about our nominating committee, see "Corporate Governance — Committees of the Board of Directors — Nominating Committee" above.

Compensation

Historically, because of our size and stage of development and the limited number of directors, the compensation of our executive officers and directors was determined by our board of directors as a whole. As of the closing of this offering, our compensation committee will be responsible for reviewing and approving the compensation of our executive officers and directors and for reviewing and recommending compensation goals, bonus and stock compensation criteria for our employees. For additional information about our compensation committee, see "Corporate Governance — Committees of the Board of Directors — Compensation Committee" above.

Assessment

Historically, because of our size and stage of development and the limited number of directors, our board of directors considered a formal assessment process to be inappropriate and evaluated its own effectiveness on an ad hoc basis. As of the closing of this offering, our nominating committee will be responsible for annually evaluating and reporting to our board of directors on the performance and effectiveness of the board as a whole, its committees and individual directors. For additional information about our nominating committee, see "Corporate Governance — Committees of the Board of Directors — Nominating Committee" above.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding beneficial ownership of our common stock by:

- each of our named executive officers;
- each of our directors and directors elect;
- each person, or group of affiliated persons, known by us to beneficially own more than 5% of our common stock; and
- all of our directors, directors elect and executive officers as a group.

Name and Address of Beneficial Owner[1]	Number of Shares Beneficially Owned[2]	Percentage of Shares Beneficially Owned		
		Before Offering[3]	After Offering[4]	
			40,000,000 Units	50,000,000 Units
Paul J. Travers	72,755,203(5)	32.64%	26.20%	25.26%
Grant Russell	12,113,033(6)	5.43%	4.36%	4.21%
William Lee	—(7)	*%	*%	*%
Frank Zammataro	—(7)	*%	*%	*%
Kathryn Sayko	—(7)	*%	*%	*%
Bernard Perrine	—(7)	*%	*%	*%
Paul Churnetski	20,452,709(6)	9.17%	7.37%	7.10%
Directors, directors elect and executive officers as a group (6 people)	105,320,945(8)	38.38%	30.84%	29.72%

* less than 1.0%

(1) The address for each person is c/o Vuzix Corporation, 75 Town Centre Drive, Rochester, NY 14623.

(2) We have determined beneficial ownership in accordance with the rules of the SEC. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those securities. In addition, the rules include shares of common stock issuable pursuant to the exercise of stock options or warrants, or the conversion of convertible promissory notes, that are either immediately exercisable or convertible, or that will become exercisable within 60 days after the date of this prospectus. These shares are deemed to be outstanding and beneficially owned by the person holding those options, warrants or convertible promissory notes for the purpose of computing the percentage ownership of that person, but they are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated, the persons or entities identified in this table have sole voting and investment power with respect to all shares shown as beneficially owned by them, subject to applicable community property laws.

(3) The percentage of shares beneficially owned before the offering is based on 220,268,927 shares of our common stock issued and outstanding as of the date of this prospectus.

(4) The percentage of shares beneficially owned after the offering is based on an estimated minimum 275,004,557 shares of our common stock issued and outstanding assuming the sale of 40,000,000 units in this offering and issuance of 5,392,246 shares to the Canadian agents under our fiscal advisory fee agreement with the Canadian agents and an estimated maximum 285,204,557 shares of our common stock issued and outstanding assuming the sale of 50,000,000 units in this offering and issuance of 5,592,246 shares to the Canadian agents under our fiscal advisory fee agreement with the Canadian agents, and in either case including 9,343,384 shares of common stock to be issued upon the conversion of both all our outstanding shares of Series C Preferred Stock, together with all accrued and unpaid dividends, and $75,000 in aggregate principal amount of convertible promissory notes, together with all accrued and unpaid interest, both as of June 30, 2009.

(5) Includes 1,673,808 shares issuable upon exercise of options granted under our 2007 option plan.

(6) Includes 548,512 shares issuable upon exercise of options granted under our 2007 option plan.

(7) Does not include an option to purchase 300,000 shares of our common stock at an exercise price per share equal to the initial public offering price per unit that we intend to issue at the closing of this offering.

(8) Includes 1,879,556 shares issuable upon exercise of options granted under our 2007 option plan.

DESCRIPTION OF CAPITAL STOCK

The following is a summary of the rights of our common stock and preferred stock. This summary is not complete. For more detailed information, please see our certificate of incorporation and bylaws, which are filed as exhibits to the registration statement of which this prospectus forms a part.

Common Stock

As of the date of this prospectus, we are authorized to issue up to 400,000,000 shares of common stock, par value $0.001 per share of which 220,268,927 shares were issued and outstanding and held of record by 246 stockholders. The outstanding shares of our common stock are validly issued, fully paid and nonassessable. Immediately after the closing of this offering, the number of shares of common stock that we will be authorized to issue will be increased to 700,000,000.

The holders of our common stock are entitled to vote upon all matters submitted to a vote of our stockholders and are entitled to one vote for each share of common stock held. Holders of our common stock are not entitled to cumulative voting on any matter, including in the election of directors. Subject to the rights and preferences, if any, applicable to shares of our preferred stock then outstanding, the holders of our common stock are entitled to receive ratably such dividends, payable in cash, stock or otherwise, as may be declared by our board of directors out of any funds legally available for the payment of dividends and distributions to the stockholders. See “Dividend Policy.”

In the event of our voluntary or involuntary liquidation, dissolution or winding up, holders of our common stock are entitled to share ratably in all of our assets legally available for distribution after payment of our liabilities and distribution of the liquidation preference, if any, on our preferred stock then outstanding. Holders of our common stock have no preemptive or other subscription rights and no rights of conversion or redemption. The rights, preferences and privileges of holders of our common stock are subject to the rights of holders of any series of our preferred stock that may then be issued and outstanding.

Preferred Stock

As of the date of this prospectus, we are authorized to issue up to 6,745,681 shares of preferred stock, par value $0.001 per share. Immediately after the closing of this offering, the number of shares of preferred stock that we will be authorized to issue will be reduced to 5,000,000. The shares of our preferred stock may be issued in one or more series, and shall have such voting powers, full or limited, or no voting powers, and such designations, preferences and relative participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions providing for the issuance of such stock adopted from time to time by our board of directors. The board of directors is expressly vested with the authority to determine and fix in the resolution or resolutions providing for the issuances of any series of preferred stock the voting powers, designations, preferences and rights, and the qualifications, limitations or restrictions thereof, of each such series to the full extent now or hereafter permitted by the laws of the State of Delaware.

As of the date of this prospectus, we have designated 500,000 shares of our preferred stock as Series C 6% Convertible Preferred Stock (Series C Preferred Stock). As of that date, 168,500 shares of our Series C Preferred Stock were issued and outstanding. We have agreed with the agents to use our best efforts to cause all of the outstanding shares of our Series C Preferred Stock, together with all dividends accrued and unpaid thereon, to be converted into common stock prior to the effective time of the registration statement of which this prospectus forms a part.

The outstanding shares of our preferred stock are validly issued, fully paid and nonassessable.

Series C Preferred Stock

Holders of our Series C Preferred Stock are entitled to vote with the holders of our common stock, together as a single class, on all matters submitted to the vote of holders of our common stock. On each such matter, each holder of our Series C Preferred Stock is entitled to the number of votes equal to the number of whole shares of our common stock into which such holder's Series C Preferred Stock is then convertible. Holders of our Series C Preferred Stock are entitled to receive an annual cumulative dividend of $0.60 per share payable in cash out of the funds legally available therefor and are entitled to participate ratably on an as converted basis in any dividends paid on our common stock. In the event of our voluntary or involuntary liquidation, dissolution or winding up, prior to any distributions to holders of our common stock, the holders of our Series C Preferred Stock are entitled to receive out of the assets legally available for distribution $10.00 per share (subject to adjustment for stock splits, stock dividends, reorganizations, consolidations and similar changes) plus any accrued and unpaid dividends.

Each share of our Series C Preferred Stock is convertible at the option of the holder into that number of shares of our common stock equal to $10.00 divided by the conversion price then in effect. The initial conversion price of one preferred share for 30 shares of common equaled $0.3333 per share was subject to adjustment for stock splits, dividends payable in capital stock, capital reorganizations or reclassifications of our capital stock and is now $0.2917 per share. All of the shares of Series C Preferred Stock plus any unpaid accrued dividends then outstanding were to automatically convert into shares of our common stock at the same rate upon the earlier of the election of the holders of 67% of the Series C Preferred Stock outstanding or the closing of a public offering of our common stock pursuant to a registration statement under the Securities Act in which the aggregate public offering price of our securities sold in the offering, before deduction of agents commissions and discounts, is at least $10,000,000.

Our Series C Preferred Stock may be redeemed, at our option, at any time and from time to time and in whole or in part, upon written notice to the holder at a redemption price equal to $10.00 per share plus any accrued and unpaid dividends. The holders of our Series C Preferred Stock may exercise their conversion rights notwithstanding our delivery of a redemption notice until we have paid the redemption price.

We have agreed with the agents to use our best efforts to cause all of the outstanding shares of our Series C Preferred Stock, together with all dividends accrued and unpaid thereon, to be converted into common stock upon the closing of this offering.

Warrants

As of the date of this prospectus, warrants to purchase a total of 3,542,197 shares of our common stock with a weighted average exercise price of $0.059 per share were outstanding. Each warrant contains provisions for the adjustment of the exercise price and the number of shares issuable upon the exercise of the warrant in the event of certain stock dividends, stock splits, reorganizations, reclassifications and consolidations.

Each unit offered under this prospectus includes one half of one common stock purchase warrant. The warrants issued in this offering will be governed by the terms of a warrant indenture we will enter into with Computershare Trust Company, Inc., as the warrant trustee, on or prior to the date of the issuance of the warrants. Each whole warrant entitles its holder to purchase one share of our common stock at a price of 150% of the initial public offering price per unit (subject to adjustment in accordance with the terms of the warrant indenture) at any time for 36 months after the closing of this offering. The exercise price of the warrants was determined by negotiation between us and the agents. If the weighted-average closing price of our common stock on the TSX-V exceeds 250% of the initial public offering price per unit for 20 consecutive trading days at any time beginning 180 days after the date on which our common stock is first traded on the TSX-V, we have the right, exercisable at our sole discretion, to accelerate the expiration date of the warrants by providing written notice to each registered warrant holder within five business days and issuing a press release to the effect that the warrants will expire at 5:00 p.m. (Toronto time) on the date specified in the notice and press release, provided that the accelerated expiration date may not be less than 30 days following the date of the notice and press release. A warrant holder will not be deemed a shareholder of our underlying common stock until the warrant is exercised.

Warrant holders may exercise their warrants only if the common shares underlying their warrants are covered by an effective registration statement or an exemption from registration is available under the Securities Act; provided that the common shares issuable upon their exercise are qualified for sale under the securities laws of the state in which the warrant holder resides. We intend to apply to qualify or register the issuance of the common stock issuable upon exercise of the warrants in California, Connecticut, Delaware, Florida, Georgia, Illinois, Maryland, Massachusetts, Nevada, New Jersey, New York, Ohio, Oregon, Virginia and Washington. We intend to use commercially reasonable efforts to have the registration statement, of which this prospectus forms a part, effective when the warrants are exercised.

If an effective registration statement is not available at the time of exercise, a holder may exercise the warrants as follows:

- A holder that is not a US person (as defined in Regulation S of the Securities Act) may exercise the warrant if the holder is not in the United States; is not exercising the warrants for, or on behalf or benefit of, a US Person or person in the United States; does not execute or deliver the warrant exercise form in the United States; agrees not to engage in hedging transactions with regard to the common stock prior to the expiration of a one-year distribution compliance period; acknowledges that the shares of common stock issuable upon exercise of the warrants are “restricted securities” as defined in Rule 144 of the Securities Act and acknowledges that we shall refuse to register any transfer of the common stock not made in accordance with the provisions of Regulation S, pursuant to registration under the Securities Act, or pursuant to an available exemption from registration under the Securities Act.
- Other holders may exercise the warrants in transactions that do not require registration under the Securities Act or any applicable US state laws and regulations upon furnishing us an opinion of counsel of recognized standing in form and substance satisfactory to us.

Under no circumstances will we be required to pay any holder the net cash exercise value of any warrant regardless of whether an effective registration statement or an exemption from registration is available or not.

Investors should be aware, however, that we cannot provide any assurance that state exemptions will be available to us or that we will have an effective registration statement in place at the time warrant holders intend to exercise their warrants.

To exercise a warrant, a warrant holder must deliver to the warrant trustee the warrant certificate on or before the warrant expiration date with the form on the reverse side of the warrant certificate fully executed and completed as instructed on the certificate, accompanied by payment of the full exercise price for the number of warrants being exercised. We will not issue any fractional shares of common stock upon exercise of the warrants.

Options

As of the date of this prospectus, options to purchase 15,304,554 shares of common stock with a weighted average exercise price of $0.0999 per share were outstanding under our 2007 option plan. Our board of directors has determined that no further options will be granted under our 2007 option plan.

As of the date of this prospectus, no options have been granted under our 2009 option plan. At the closing of this offering, we intend to grant to each of our four new non-employee directors an option to purchase 300,000 shares of our common stock at an exercise price per share equal to the initial public offering price per unit. These options will be 50% vested immediately on grant and the balance will vest ratably, on a monthly basis, over the next 12 months.

Convertible Debt

In December 2001 and January 2002, we issued and sold convertible promissory notes in the aggregate principal amount of $15,000. Interest on outstanding principal amount of the notes accrues at the annual rate of 7.5%. The outstanding principal amount of the notes, together with all accrued and unpaid interest thereon, is convertible at the option of the holder into shares of our common stock at the adjusted current rate of $0.057089 per share. The outstanding principal amount of the notes together with all unpaid accrued interest thereon was originally due and payable upon the consummation of our first equity financing after the date of issuance. We have agreed with the agents to use our best efforts to cause the entire outstanding principal amount of the notes, together with all unpaid accrued interest thereon, to be converted into shares of our common stock prior to the effective time of the registration statement of which this prospectus forms a part.

From April 2002 through July 2002, we issued and sold convertible promissory notes in the aggregate principal amount of $60,000. Interest on outstanding principal amount of the notes accrues at the annual rate of 8.0%. The outstanding principal amount of the notes, together with all accrued and unpaid interest thereon, is convertible at the option of the holder into shares of our common stock at the rate of the lesser of (i) $0.30 per share; (ii) 65% of the price at which shares of our common stock are offered to the public in the initial public offering of our common stock; or (iii) 75% of the weighted average price per share at which we sell our common stock in the first offering after issuance of the notes that results in aggregate gross proceeds to us of at least $500,000. The outstanding principal amount of the notes together with all unpaid accrued interest thereon was originally due and payable on May 31, 2004. We have agreed with the agents to use our best efforts to cause the entire outstanding principal amount of the notes, together with all unpaid accrued interest thereon, to be converted into shares of our common stock prior to the effective time of the registration statement of which this prospectus forms a part.

On September 19, 2006, we borrowed $500,000 from an individual lender and issued a convertible promissory note in the principal amount of $500,000 in evidence of the loan. Interest on the outstanding principal amount of the note accrues at the annual rate of 10.0%. The outstanding principal amount of the note, together with all accrued and unpaid interest thereon, is convertible at the option of the holder into shares of our common stock at the rate of $0.2667 per share. The outstanding principal amount of the note together with all unpaid accrued interest thereon was due and payable on January 31, 2009. As of January 31, 2009, the interest accrued and unpaid on the note was $118,493. Since January 31, 2009 interest on the principal amount of the note has accrued at the annual rate of 18.0% and we have made monthly payments of interest only. As of the date of this prospectus, no demand for immediate payment of the principal amount of the note has been made. We intend to pay the outstanding principal

amount of the note in full, together with all accrued and unpaid thereon, from the proceeds of this offering. We may not receive sufficient proceeds from this offering to repay any of this indebtedness.

Registration Rights

In October 2000, we entered into a registration rights agreement with investors who purchased shares of our common stock in a private placement. Additional investors who purchased shares of our common stock in private placements closed in December 2000, January 2001 and September 2001 were subsequently joined as parties to the agreement. Under the agreement, if at any time after October 11, 2002 our common stock is not listed for trading on a recognized stock market or exchange in the United States or Canada or on the OTC Bulletin Board, then upon the request of investors holding at least a majority of the shares of our common stock subject to the agreement we are obligated to file one registration statement covering the resale of such shares. We are required to bear all costs, other than underwriting discounts and commissions, related to any such registration. As of the date of this prospectus, 2,720,000 shares of our common stock are subject to the agreement. To date, no request for registration has been made by the holders of those shares.

In October 2000, we entered into a shareholders' agreement with certain holders of our common stock. Under the agreement, we are obligated to give those shareholders the opportunity to include their shares of common stock in any registration statement filed by us under the Securities Act for purposes of effecting a public offering of our securities (including, but not limited to, registration statements relating to secondary offerings of our securities, but excluding registration statements relating to our initial public offering). If any shareholder decides not to include all of his shares in any registration statement filed by us, or if the number of shares that he is permitted to include in such registration statement is limited by the underwriter, that shareholder shall continue to have the right to include his shares in any registration statement we may subsequently file. We are required to bear all costs, other than underwriting discounts and commissions, related to any such registration. As of the date of this prospectus, 31,764,437 shares of our common stock are subject to the agreement.

In June 2005, we entered into a registration rights agreement with investors who purchased shares of our Series C Preferred Stock and warrants exercisable to purchase shares of our common stock in a private placement. Under the agreement, we are obligated to give those investors the opportunity to include the shares of common stock issuable upon conversion of their Series C Preferred Stock or upon exercise of their warrants in any registration of our common stock under the Securities Act other than our initial registered offering of shares to the public, a registration in connection with a merger or other business combination transaction that has been consented in writing by the holders of the Series C Preferred Stock, or a registration relating to an employee benefit plan. We are required to bear all costs, other than underwriting discounts and commissions, related to any such registration. As of August 31, 2009 7,120,096 shares of our common stock are issuable upon conversion of the Series C Preferred Stock, together with all accrued and unpaid dividends thereon. All of the warrants issued in the private placement of our Series C Preferred Stock were exercised in 2008.

In December 2005, pursuant to a technology acquisition agreement we entered into a rights agreement with New Light Industries, Ltd. in connection with our issuance to New Light of a warrant to purchase up to 1,428,571 shares of our common stock. Under the agreement, we are obligated to give New Light the opportunity to include the shares of common stock issuable upon exercise of its warrants in any registration of our securities under the Securities Act other than a registration in connection with a merger or other business combination transaction or relating to an employee benefit plan or our first firm commitment underwritten public offering. We are required to bear all costs, other than underwriting discounts and commissions, related to any such registration. New Light has waived its registration rights with respect to this offering.

Rule 144

The holders of 46.9% of our outstanding common stock have owned their shares for more than one year, are not affiliated with us and, accordingly, are able to resell their shares to the public with regard to any volume limitations in accordance with Rule 144 under the Act. In addition, 90 days after the date of this prospectus our stockholders who have then held their shares for more than six months and are not affiliated with us will also be able to resell their shares to the public without regard to any volume limitations in accordance with Rule 144 and our affiliates (which

includes our officers and directors) who have held their shares for more than six months will be able to sell their shares to the public subject to certain volume and other restrictions contained in Rule 144. The ability of our officers and directors and some of our stockholder to sell under Rule 144 is subject the lock up agreements and TSX-V escrow arrangements described below. See "Shares Eligible For Future Sale."

Delaware Anti-Takeover Law and Provisions of our Restated Certificate of Incorporation and Amended and Restated Bylaws

Delaware Anti-Takeover Law

As a result of this offering we may become subject to Section 203 of the Delaware General Corporation Law. Section 203 generally prohibits a Delaware corporation that has a class of voting stock that is listed on a "national securities exchange" or is held of record by more than 2,000 stockholders from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless it satisfies one of the following conditions:

- prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding shares owned by persons who are directors and also officers and shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- on or subsequent to the date of the transaction, the business combination is approved by the board and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least $66^2/_3\%$ of the outstanding voting stock which is not owned by the interested stockholder.

For purposes of Section 203, "business combination" includes:

- any merger or consolidation involving the corporation and the interested stockholder;
- any sale, transfer, pledge or other disposition involving the interested stockholder of 10% or more of the assets of the corporation;
- subject to exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder; and
- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an "interested stockholder" as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by such entity or person.

Neither the TSX-V nor the OTC BB constitutes a "national securities exchange" for purposes of Section 203. However, in the event that as a result of the offering our common stock is held of record by more than 2,000 stockholders or if the common stock is listed on an exchange that constitutes a national securities exchange within the meaning of Section 203, we would become subject to the foregoing restrictions.

Certificate of incorporation and amended and restated bylaws

Provisions of our certificate of incorporation and bylaws may delay or discourage transactions involving an actual or potential change in our control or change in our management, including transactions in which stockholders might otherwise receive a premium for their shares and transactions that our stockholders might otherwise deem to be in their best interests. As a result, these provisions could adversely affect the price of our common stock. At

the closing of this offering, our certificate of incorporation will permit our board of directors to issue up to 5,000,000 shares of preferred stock, with any rights, preferences and privileges as they may designate, including the right to approve an acquisition or other change in our control. In addition, our certificate of incorporation and bylaws:

- provide that the authorized number of directors may be changed only by resolution of the board of directors;
- provide that all vacancies, including newly created directorships, may, except as otherwise required by law, be filled by the affirmative vote of a majority of directors then in office, even if such number is less than a quorum;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting of stockholders and not by written consent;
- provide that stockholders seeking to present proposals before a meeting of stockholders or to nominate candidates for election as directors at a meeting of stockholders must provide notice in writing in a timely manner, and also specify requirements as to the form and content of a stockholder's notice;
- do not provide for cumulative voting rights, therefore allowing the holders of a majority of the shares of our common stock entitled to vote in any election of directors to elect all of the directors standing for election, if they should so choose; and
- provide that special meetings of our stockholders may be called only by the chairman of the board, our chief executive officer or by the board of directors pursuant to a resolution adopted by a majority of the total number of authorized directors.

The amendment of any of these provisions would require approval by the holders of at least two-thirds of our then outstanding capital stock.

Transfer Agent and Registrar

The main transfer agent and registrar for our common stock is Computershare Trust Company, N.A. in Golden, Colorado and the co-transfer agent and co-registrar for our common stock is Computershare Investor Services Inc. in Toronto, Ontario, Canada. The agent and registrar for our warrants is Computershare Trust Company of Canada in Toronto, Ontario, Canada.

SHARES ELIGIBLE FOR FUTURE SALE

Immediately prior to this offering, there was no public market for our securities. Future sales of substantial amounts of common stock in the public market, or the perception that such sales may occur, could adversely affect the market price of our common stock. Furthermore, since only a limited number of shares will be available for sale shortly after this offering because of contractual and legal restrictions on resale described below, sales of substantial amounts of common stock in the public market after the restrictions lapse could adversely affect the market price for our common stock as well as our ability to raise equity capital in the future. There may never be an active public market for our common stock.

Based on the number of shares of common stock outstanding as of the date of this prospectus, upon completion of this offering, between 275,105,285 shares (assuming minimum gross proceeds of Cdn$6,000,000 at the initial public offering price of Cdn$0.15 per unit and issuance of 5,392,246 compensation shares) and 285,204,557 shares (assuming the sale of 50,000,000 units and the issuance of 5,592,246 compensation shares) of our common stock will be outstanding (assuming no exercise of other options or warrants and assuming conversion in full of all outstanding Series C Preferred Stock, together with all accrued and unpaid dividends thereon, at the rate of $0.2917 per share and conversion of $75,000 in aggregate principal amount of convertible promissory notes, together with all accrued and unpaid interest thereon, at the rate of $0.057085 per share). All of the shares sold in this offering (including all of the shares issuable upon exercise of the warrants sold in this offering) will be freely tradable without restriction or further registration under the Securities Act, except for any of those shares held by our

"affiliates," as that term is defined in Rule 144 under the Securities Act, whose sales would be subject to the volume and manner of sale limitations of Rule 144 described below. In addition, 134,836,808 shares of our common stock currently outstanding, or between approximately 47% and 49% of our common stock outstanding after this offering, may be resold at any time, subject to the lock-up agreements and TSX-V escrow arrangements and seed share resale restrictions described below. Our executive officers and directors currently own 82,987,672 shares, or between approximately 29% and 30% of our common stock outstanding after this offering, which are eligible for resale subject to the volume and manner of sale limitations of Rule 144 and subject to the lock-up agreements and TSX-V escrow arrangements described below. The remaining 2,444,447 shares of our common stock currently outstanding, or approximately 0.9% of our common stock outstanding after this offering, are "restricted" under Rule 144 and are eligible for sale under the provisions of Rule 144.

We have entered into a fiscal advisory fee agreement with the Canadian agents. The agreement provides that in consideration for the fiscal advisory services to be provided from time to time by the Canadian agents to us, we will issue to the Canadian agents at the closing of this offering that number of shares of our common stock equal to, depending on the gross proceeds of the offering, between 1.0% and 2.0% of our common stock issued and outstanding immediately upon the closing of the offering. The shares issued to the Canadian agents under the agreement will be subject to resale restrictions in accordance with applicable Canadian securities laws and will be subject to resale restrictions for a period of one year following the closing of the offering under the lock-up agreements described below.

Rule 144

In general, under Rule 144 as currently in effect, a person (or persons whose shares are aggregated) who is not deemed to have been an affiliate of ours at any time during the three months preceding a sale, and who has beneficially owned restricted securities within the meaning of Rule 144 for at least six months (including any period of consecutive ownership of preceding non-affiliated holders) would be entitled to sell those shares, subject only to the availability of current public information about us. A non-affiliated person who has beneficially owned restricted securities within the meaning of Rule 144 for at least one year would be entitled to sell those shares without regard to the provisions of Rule 144.

In general, under Rule 144 as currently in effect, our affiliates or persons selling shares on behalf of our affiliates are entitled to sell, upon expiration of the lock-up agreements described above, within any three-month period beginning 90 days after the date of this prospectus, a number of shares that does not exceed the greater of:

- 1% of the number of shares of common stock then outstanding, which will equal approximately 260,846 shares immediately after this offering; or
- The average weekly trading volume of the common stock on the TSX-V during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 by our affiliates or persons selling shares on behalf of our affiliates are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 701

Rule 701 under the Securities Act, as currently in effect, permits the resale of shares in reliance on Rule 144 without compliance with certain restrictions of Rule 144, including the holding period requirement. Most of our employees, executive officers, directors and consultants who purchased shares under a written compensatory plan or contract may be entitled to rely on the resale provisions of Rule 701 provided that they wait until 90 days after the date of this prospectus before selling their shares. However, substantially all Rule 701 shares are subject to lock-up agreements as described below and under "Underwriting" and will become eligible for sale upon the expiration of those agreements (or as otherwise permitted under those agreements).

Lock-Up Agreements

We have agreed with the agents to use our commercially reasonable efforts to cause our directors, executive officers and stockholders who will hold more than 2.5% of our outstanding common stock (or securities exercisable,

exchangeable or convertible for common stock) on a fully-diluted basis immediately after the closing of this offering, who currently collectively represent approximately 62% of our outstanding shares of common stock, to enter into agreements with the agents not to offer, sell, assign, transfer, pledge, contract to sell or otherwise dispose of or hedge any shares of our common stock, or any securities convertible into or exchangeable for shares of common stock, for a period of one year following the closing of this offering. Additionally, we have agreed with the agents to use our commercially reasonable efforts to cause stockholders (other than those subject to the agreement described above) who will hold more than 1.0% of our outstanding common stock (or securities exercisable, exchangeable or convertible for common stock) on a fully-diluted basis immediately after the closing of this offering and our key employees, who collectively represent approximately 11% of our outstanding shares of common stock, to enter into agreements with the agents not to offer, sell, assign, transfer, pledge, contract to sell or otherwise dispose of or hedge any shares of our common stock, or any securities convertible into or exchangeable for shares of common stock, for a period of six months following the closing of this offering. The shares of our common stock to be issued to the Canadian agents under our fiscal advisory fee agreement will also be subject to restrictions on resale for a period of one year after the closing of the offering under the terms of the lock-up agreement. The agents may, in their sole discretion, at any time without prior notice, release all or any portion of the shares from the restrictions in any such agreement. We have been advised by the agents that, in considering any request to release shares subject to a lock-up agreement, they will consider, among other factors, the stockholder's reasons for requesting the release, the number of shares for which the release is being requested and market conditions at the time. Notwithstanding the foregoing, for the purposes of allowing the agents to comply with NASD Rule 2711(f)(4), if, under certain circumstances during the 16-day period beginning on the last day of the lock-up period, we release earnings results or publicly announce other material news or a material event relating to us is publicly announced, the lock-up period will be extended until 18 days following the date of release of the earnings results or the announcement of the material news or material event, as applicable.

Resale Restrictions under FINRA Rule 5110(g)

Pursuant to FINRA Rule 5110(g), any of our securities acquired by the agents or related person during 180 days prior to the date of this prospectus, other than any securities acquired in a registered public offering, and any of our securities acquired by the agents or related person after the date of this prospectus and deemed to be underwriting compensation by FINRA are subject to restrictions on resale. See "Underwriters — Resale Restrictions under FINRA Rule 5110(g)"

Registration Rights

Upon completion of this offering, the holders of 31,764,437 shares of our common stock, and warrants to purchase up to 1,428,571 shares of our common stock will be entitled to include their shares of common stock in any subsequent registration statement that we file registering the sale of common stock under the Securities Act, subject to certain limitations and exceptions. Registration of these shares under the Securities Act would result in the shares becoming freely tradable without restriction under the Securities Act, except for shares purchased by affiliates, immediately upon the effectiveness of the registration. Any sales of securities by these stockholders could have a material adverse effect on the trading price of our common stock. See "Description of Capital Stock — Registration Rights."

Equity Incentive Plans

We intend to file with the SEC a registration statement under the Securities Act covering the shares of common stock reserved for issuance under our 2007 option plan, 2009 option plan and directors' plan. We expect the registration statements to be filed and become effective as soon as practicable after the completion of this offering. Shares registered under that registration statement will be available for sale in the open market following its effective date, subject to Rule 144 volume limitations and the lock-up arrangements described above and the TSX-V escrow arrangements described below, if applicable.

The following three sections describe restrictions on resale arising under the rules and regulations of applicable Canadian securities regulators and the TSX-V.

Principal's Escrow

In accordance with the National Policy 46-201 *Escrow for Initial Public Offerings* (National Policy 46-201), our Principals (as defined below) are required to deposit into escrow our equity securities and any securities that are convertible into our equity securities that they own or control (which we refer to as the "Principal's Escrow"). "Principals" include all persons or companies that will, on the completion of this offering, fall into at least one of the following categories: (i) a person or company who acted as our promoter within two years before the date of this prospectus; (ii) our directors and/or senior officers; (iii) those who own and/or control more than 10% of our voting securities immediately after the completion of this offering if they also have appointed or have the right to appoint one or more of our directors or senior officers; (iv) those who own and/or control more than 20% of our voting securities immediately after the completion of this offering; (v) associates and affiliates of any of the above; (vi) a company, trust, partnership or other entity more than 50% held by one or more Principals; and (vii) a Principal's spouse and their relatives that live at the same address as the Principal.

Pursuant to the Principal's Escrow, the Principals will deposit into escrow with Computershare Investor Services Inc. their shares of common stock, warrants and options to purchase shares of our common stock (which we refer to as the "Escrowed Securities") which will be subject to escrow.

Upon completion of this offering, if we are classified by applicable Canadian securities regulators as an "established issuer," 25% of the Escrowed Securities will be released from escrow upon receipt of notice from the TSX-V confirming the listing of our common stock on the TSX-V. The remaining 75% of the Escrowed Securities will be released from escrow in 25% tranches at six-month intervals over an 18-month period following receipt of such notice.

In the event that we are not classified as an "established issuer" and our common stock is listed on Tier 2 of the TSX-V, 10% of the Escrowed Securities will be released from escrow upon receipt of notice from the TSX-V confirming the listing of our common stock on the TSX-V. The remaining 90% of the Escrowed Securities will be released from escrow in 15% tranches at six-month intervals over a 36-month period following receipt of such notice.

TSX-V Seed Share Resale Restrictions

Securities that were issued to people other than our Principals prior to the completion of this offering will be subject to resale restrictions imposed by the TSX-V (which we refer to as the "TSX-V Seed Share Resale Restrictions"). The purchase price of such securities and the time of their purchase relative to the date of a receipt for this prospectus by the applicable Canadian securities regulators will determine which TSX-V hold period applies. The TSX-V hold period does not apply to persons who are subject to the Principal's Escrow as discussed above. It is anticipated that the securities subject to the TSX-V Seed Share Resale Restrictions will have similar restrictions on resale as the Principal's Escrow set forth above.

Summary of Escrow and Contractual Restrictions on Transfer

As of the date hereof, the following table sets out the number and percentage of our securities which will be subject to the Principal's Escrow and TSX-V Seed Share Resale Restrictions upon the closing of this offering.

		Percentage of Class Outstanding		
			After the Offering	
Designation of Class	Number of Securities Held in Escrow(1)	Prior to the Offering	40,000,000 Units	50,000,000 Units
Common Stock	106,475,137(1)	48.3%	38.7%	37.3%
Options	6,513,920	3.0%	2.3%	2.2%
Warrants	—	—	—	—

(1) Pursuant to National Policy 46-201, 106,475,137 shares of our common stock and 2,550,440 options to purchase shares of our common stock will be held in escrow under the Principals' Escrow. Pursuant to the TSX-V Escrow, an additional aggregate of 66,114,780 shares of our common stock, including certain shares issuable upon exercise of options and warrants, will be subject to resale restrictions pursuant to the TSX-V Seed Share Resale Restrictions.

UNDERWRITING

We intend to enter into an agency agreement with Canaccord Capital Corporation, Bolder Investment Partners, Ltd. and Canaccord Adams Inc. to serve as co-lead agents of our offering. Neither Canaccord Capital nor Bolder will offer or sell securities in the United States or to any "U.S. person" within the meaning of Regulation S ("Regulation S") under the Securities Act. Canaccord Capital and Bolder are registered and licensed dealers in Canada and are subject to Canadian dealer requirements in connection with the offering. Offers of our units in the United States will be made only through Canaccord Adams Inc., a US registered broker dealer affiliated with Canaccord Capital Corporation, and such other US registered dealers as may be designated by our Canadian agents. This offering is made on a best efforts basis. This means that the agents have not committed to buy any of our units, but shall use their best efforts to sell our units for us.

As consideration for their services, the Canadian agents will receive: (i) a commission equal to 8% of the gross proceeds of the offering; (ii) options entitling the Canadian agents to purchase that number of shares our common stock and warrants equal to 12.5% of the aggregate number of shares of our common stock and warrants sold under the offering, at the offering price per share and warrant, respectively, for a period of 12 months from the closing date; and (iii) a non-refundable due diligence fee of Cdn$15,000. The Canadian agents will also be reimbursed for their reasonable fees and expenses including the reasonable legal fees and disbursements of legal counsel to the agents. The Canadian agents may appoint selling agents in the United States, including Canaccord Adams Inc., which may be paid selling commissions not to exceed 6% of the gross proceeds of the offering in the United States and options entitling US selling agents to purchase that number of shares of our common stock and warrants equal to 8% of the aggregate number of shares of our common stock and warrants sold in the United States under the offering at the initial public offering price for a period of 12 months from the closing date. The commission paid to US selling agents will be paid by the Canadian agents from their commissions.

The agents must sell the number of units that will result in us receiving the minimum gross proceeds (Cdn$6,000,000) if any are sold. The agents are required to use their best efforts to sell the maximum number of units offered (50,000,000 units). Pursuant to an escrow agreement that we will enter into with Canaccord Capital Corporation and ● , as escrow agent, the funds received in payment for the units sold in this offering will be deposited into a non-interest bearing escrow account and held until the closing of the offering. The closing of the offering shall occur at the offices of Wildeboer Dellelce LLP, our Canadian counsel, in Toronto, Ontario, Canada as soon as practicable after the minimum gross proceeds have been raised. At the closing, certificates representing the shares of common stock and the common stock purchase warrants will be delivered to Canaccord Capital Corporation in its nominee name for deposit with CDS Clearing and Depository Services Inc. and the proceeds from the offering will be delivered to us. No funds shall be released to us until such a time as the minimum gross proceeds are raised. If the minimum gross proceeds are not raised within 90 days of the date of this prospectus, all funds will be returned to investors promptly without interest or deduction of fees.

The warrants will be issued pursuant to the terms of a warrant indenture dated as of the closing date between us and Computershare Trust Company of Canada, as warrant agent. The warrant indenture will contain provisions designed to protect the holders of warrants against dilution upon the happening of certain events. No fractional shares will be issued upon exercise of the warrants.

The obligations of the agents under the agency agreement may be terminated by the agents in their discretion on the basis of their assessment of the state of the financial markets and may also be terminated in certain stated circumstances and upon the occurrence of certain stated events.

The agents, or registered sub-agents who assist the agents in the distribution of the units offered hereunder, conditionally offer the units, subject to prior sale, if, as and when issued by us and accepted by the agents in accordance with the conditions contained in the agency agreement and subject to the approval of certain legal matters, on behalf of counsel to both us and the agents. While the agents will solicit expressions of interest and arrange for subscriptions for units prior to closing, the agents will not accept proceeds prior to closing. Subscriptions for the common stock and warrants constituting the units will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice.

We estimate that our total expenses of the offering, including the reimbursement of all of the agents expenses inclusive all of the fees owed by them to their legal counsel, excluding underwriting commissions, will be approximately $500,000 and are payable by us. We will pay all these expenses from the proceeds of the offering.

Offering Price Determination

Prior to the offering, there has been no public market for our securities. The initial public offering price of our units will be negotiated between us and the agents. In addition to prevailing market conditions, the factors considered in determining the initial public offering price are our financial information, our historical performance, our future prospects and the future prospects of our industry in general, our capital structure, estimates of our business potential and earnings prospects, the present state of our development and an assessment of our management and the consideration of the above factors in relation to market valuation of companies engaged in businesses and activities similar to ours.

An active trading market for our common stock may not develop. It is also possible that after the offering, the shares of common stock will not trade in the public market at or above the initial public offering price. Any of the underwriting activities mentioned in this section may have the effect of preventing or retarding a decline in the market price of the common stock. The agents may also cause the price of the common stock to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The agents may conduct these transactions on the TSX-V or in the over-the-counter market, or otherwise. If the agents commence any of these transactions, they may discontinue them at any time.

The agents do not intend to confirm sales of the shares to any accounts over which they have discretionary authority.

Allocation of Purchase Price

In acquiring our units, the purchasers will be acquiring ownership of the shares of common stock and the warrants represented by our units. The shares of common stock and warrants represented by our units are separate securities and, accordingly, purchasers will be required to allocate the purchase price paid for units between the shares of common stock and the warrants on a reasonable basis in order to determine their respective costs for purposes of federal income tax. We intend to allocate • % of the public offering price of each unit as consideration for the issue of each share of common stock and • % for the issue of each one-half warrant. Although we believe this allocation is reasonable, this allocation will not be binding on the Internal Revenue Service or any other tax authority and neither Vuzix nor our counsel express any opinion as to this allocation. **The information provided herein does not constitute tax advice. You must consult your own tax advisors concerning the application of US federal income tax laws to your particular situation as well as any consequences of the purchase, ownership, and disposition of the shares of common stock and warrants arising under the laws of any other jurisdiction.**

Stabilization, Short Positions and Penalty Bids

Until the distribution of the shares is completed, SEC rules may limit agents and selling group members from bidding for and purchasing our common stock. However, the agents' representatives may engage in transactions that stabilize the price of our common stock, such as bids or purchases to peg, fix or maintain that price.

If the agents create a short position in the common stock in connection with the offering (i.e., if they sell more shares than are listed on the cover of this prospectus), the agents' representatives may reduce that short position by purchasing shares in the open market. Purchases of the common stock to stabilize its price or to reduce a short position may cause the price of the common stock to be higher than it might be in the absence of such purchases.

The agents' representatives may also impose a penalty bid on agents and selling group members. This means that if the agents' representatives purchase shares of common stock in the open market to reduce the underwriter's short position or to stabilize the price of such shares of common stock, they may reclaim the amount of the selling concession from the agents and selling group members who sold those shares of common stock. The imposition of a penalty bid may also affect the price of the shares of common stock in that it discourages resales of those shares of common stock.

Neither we nor any of the agents make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the agents make any representation that the agents' representatives or lead manager will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Lock-Up Agreements

We have agreed with the agents to use our commercially reasonable efforts to cause our directors, executive officers and stockholders who will hold more than 2.5% of our outstanding common stock (or securities exercisable, exchangeable or convertible for common stock) on a fully-diluted basis immediately after the closing of this offering, who collectively hold approximately 62% of our outstanding shares of common stock, to enter into agreements with the agents not to offer, sell, assign, transfer, pledge, contract to sell or otherwise dispose of or hedge any shares of our common stock, or any securities convertible into or exchangeable for shares of common stock, for a period of one year following the closing of this offering. Additionally, we have agreed with the agents to use our commercially reasonable efforts to cause stockholders (other than those subject to the agreement described above) who will hold more than 1.0% of our outstanding common stock (or securities exercisable, exchangeable or convertible for common stock) on a fully-diluted basis immediately after the closing of this offering and our key employees, who collectively hold approximately 11% of our outstanding shares of common stock, to enter into agreements with the agents not to offer, sell, assign, transfer, pledge, contract to sell or otherwise dispose of or hedge any shares of our common stock, or any securities convertible into or exchangeable for shares of common stock, for a period of six months following the closing of this offering.

The foregoing restricted periods will be extended if during the last 17 days of the restricted period we issue an earnings release or material news or a material event relating to us occurs, or prior to the expiration of the restricted period we announce that we will release earnings results during the 16-day period beginning on the last day of the restricted period, in which case the restrictions described above will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

The restriction described in the immediately preceding paragraphs do not apply to: (a) transactions by stockholders not deemed to be our affiliates relating to shares of common stock or other securities acquired in open market transactions after the completion of this offering; (b) transfers of shares of common stock or any security exercisable for shares of common stock as a *bona fide* gift or gifts; (c) distributions of shares of common stock or any security exercisable for shares of common stock to corporations, partnerships, limited liability companies or other entities to the extent that such entities are wholly-owned by the stockholder that agrees to be bound by the restrictions described in the preceding paragraphs; (d) tenders of shares of common stock made in response to a *bona fide* third party take-over bid made to all holders of shares of common stock or similar acquisition transaction; (e) any transfer to an immediate family member or an entity of which the transferor or an immediate family member of the transferor is the sole beneficiary; or (f) a pledge of shares of common stock or any security exercisable for shares of common stock to a bank or other financial institution for the purpose of giving collateral for a debt made in good faith; provided, that in the case of any transfer, distribution or pledge pursuant to clause (b), (c), (e) or (f), each donee, distributee, transferee or pledgee agrees in writing to be bound by the transfer restrictions described in the preceding paragraphs and no filing by any party under the Exchange Act shall be required or shall be voluntarily made in connection with subsequent sales of shares of common stock or other securities acquired in such transfer or distribution.

Resale Restrictions under FINRA Rule 5110(g)

Pursuant to FINRA Rule 5110(g), subject to the exceptions described below, any of our securities acquired by the agents or related person during 180 days prior to the date of this prospectus, other than any securities acquired in a registered public offering, and any of our securities acquired by the agents or related person after the date of this prospectus and deemed to be underwriting compensation by FINRA may not be sold during this offering, or sold, transferred, assigned, pledged, or hypothecated, or be the subject of any hedging, short sale, derivative, put, or call transaction that would result in the effective economic disposition of the securities by any person for a period of 180 days immediately following the date of this prospectus. FINRA Rule 5110(g) does not prohibit (a) any transfer of our securities (i) by operation of law or by reason of our reorganization; (ii) to any FINRA member participating in the offering and the officers or partners thereof, if all securities so transferred remain subject to the lock-up under Rule 5110(g) for remainder of the time period; (iii) if the aggregate amount of our securities held by an agent or related person do not exceed 1% of the securities being offered; (iv) that are beneficially owned on a pro-rata basis by all equity owners of an investment fund, provided that no participating member manages or otherwise directs investments by the fund, and participating members in the aggregate do not own more than 10% of the equity in the fund; (v) that is not an item of value under FINRA Rule 5110(c)(3)(B)(iii) through (vii); (vi) that is eligible for the

limited filing requirement in FINRA Rule 5110(b)(6)(A)(iv) and has not been deemed to be underwriting compensation under the Rule; (vii) that was previously but is no longer subject to the lock-up restriction of FINRA Rule 5110(g) in connection with a prior public offering, provided that if the prior restricted period has not been completed, the security will continue to be subject to such prior restriction until it is completed; or (viii) that was acquired subsequent to the issuer's initial public offering in a transaction exempt from registration under Securities Act Rule 144A; or (b) the exercise or conversion of any security, if all securities received remain subject to the lock-up restriction under FINRA Rule 5110(g) for the remainder of the time period.

Indemnification

We have agreed to indemnify the agents against certain liabilities relating to the offering, including without restriction liabilities under the Securities Act, and liabilities arising from breaches of the representations and warranties contained in the underwriting agreement, and to contribute to payments that the agents may be required to make for these liabilities.

Fiscal Advisory Fee Agreement

We have entered into a fiscal advisory fee agreement with the Canadian agents. The agreement provides that the Canadian agents have and will continue to provide certain customary fiscal advisory services, including assisting and advising us with respect to capital markets strategies and assisting us in its development of an investor relations strategy and communications with existing investors. In consideration for the services to be provided under the agreement, we will issue to the Canadian agents at the closing of this offering that number of shares of our common stock equal to, depending on the gross proceeds of the offering, between 1.0% and 2.0% of our common stock issued and outstanding immediately upon the closing of the offering. The shares issued to the Canadian agents under the agreement will be issued pursuant to exemptions from the registration requirements of applicable United States and Canadian securities laws and will be subject to resale restrictions under those laws and to resale restrictions for a period of one year following the closing of the offering under the lock-up agreements described above. The agreement will terminate, and we will have no obligation to issue any shares to the Canadian agents thereunder, if the offering has not closed by October 31, 2009.

CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

On October 2, 2009, we received notice that our then current auditors, Rotenberg & Co., LLP, had resigned in connection with their merger with EFP Group. We have engaged the new firm resulting from the merger, EFP Rotenberg, LLP, to continue as our independent registered public accounting firm. All of the partners and employees of Rotenberg & Co., LLP and EFP Group have joined the new firm, EFP Rotenberg, LLP.

The reports of Rotenberg & Co., LLP as of and for the year ended December 31, 2008 and the subsequent interim period preceding the resignation of Rotenberg & Co., LLP did not contain an adverse opinion or disclaimer of opinion, or were qualified or modified as to uncertainty, audit scope, or accounting principles. During the period from initial engagement of Rotenberg & Co., LLP, February 9, 2009, through the subsequent interim period preceding the resignation of Rotenberg & Co., LLP, there were no disagreements with Rotenberg & Co., LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Rotenberg would have caused it to make reference to such disagreement in its reports.

On October 12, 2009, EFP Rotenberg, LLP was engaged as our independent registered public accountant effective concurrent with the merger. Prior to such engagement, during the two most recent fiscal years, we did not consult with EFP Rotenberg, LLP on any matter.

We provided Rotenberg & Co., LLP with a copy of this disclosure prior to its filing with the SEC and requested that Rotenberg & Co., LLP furnish us with a letter addressed to the SEC stating whether it agrees with the above statements and, if it does not agree, the respects in which it does not agree, a copy of which is filed as an exhibit to the registration statement of which this prospectus forms a part.

LEGAL MATTERS

Boylan, Brown, Code, Vigdor & Wilson, LLP, Rochester, New York, will pass upon the legality of the securities being offered by this prospectus. The agents are being represented by in this offering by Dorsey & Whitney LLP, Denver, Colorado.

EXPERTS

EFP Rotenberg, LLP, an independent registered public accounting firm, has audited our consolidated financial statements as of December 31, 2008. Davie Kaplan, CPA, P.C., an independent registered public accounting firm, has audited our financial statements as of December 31, 2007 and 2006 as set forth in their reports thereon accompanying such financial statements included in this prospectus and in this registration statement. We have included these financial statements in this prospectus and in the registration statement in reliance on both EFP Rotenberg's and Davie Kaplan's reports, given on the authority of such firm as experts in accounting and auditing.

As of the date hereof, the partners, counsel and associates of Boylan, Brown, Code, Vigdor & Wilson, LLP or Dorsey & Whitney LLP beneficially own directly or indirectly, respectively, less than 1% of our common stock or any common stock of any of our affiliates or associates.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form S-1 (including exhibits and schedules thereto) under the Securities Act with respect to the shares of common stock being offered by this prospectus. This prospectus does not contain all of the information included in the registration statement. For further information about us and our common stock offered by this prospectus, we refer you to the registration statement. Statements contained in this prospectus as to the contents of any contract or any other document referred to are not necessarily complete, and in each instance, we refer you to the copy of the contract or other document filed as an exhibit to the registration statement. Each of these statements is qualified in all respects by this reference.

You may read our SEC filings, including the registration statement, over the Internet at the SEC's website at www.sec.gov. You may also read and copy any document we file with the SEC at its public reference facilities at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. In addition, you may obtain copies of these documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities.

Upon completion of this offering, we will be subject to the information reporting requirements of the Securities Exchange Act and we will file reports, proxy statements and other information with the SEC. These reports, proxy statements and other information will be available for inspection and copying at the public reference facilities and website of the SEC referred to above. We also maintain a website at www.vuzix.com, at which you may access these materials free of charge as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. The information contained on, connected to or that can be accessed through our website is not part of this prospectus. We have included our website address in this prospectus as an inactive textual reference only and not as an active hyperlink.

VUZIX CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Vuzix Corporation

We have audited the accompanying consolidated balance sheet of Vuzix Corporation and its subsidiary as of December 31, 2008, and the related consolidated statement of operations, changes in stockholders' equity and cash flows for the period then ended. Vuzix Corporation's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Vuzix Corporation as of December 31, 2007, were audited by other auditors whose report dated June 17, 2008 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Vuzix Corporation as of December 31, 2008, and the results of its operations and its cash flows for the period ending December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

/s/ EFP Rotenberg, LLP

Rochester, New York
June 17, 2009

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
VUZIX Corporation

We have audited the balance sheets of VUZIX Corporation (F/K/A Icuiti Corporation) as of December 31, 2007 (Restated) and 2006, and the related statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VUZIX Corporation (F/K/A Icuiti Corporation) as of December 31, 2007 (Restated) and 2006, and the results of its operations, changes in stockholders' equity and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Note 20 to the financial statements, the 2007 financial statements have been restated to correct a misstatement.

/s/ Davie Kaplan, CPA, P.C.

June 17, 2008
Rochester, New York
(Except for Note 20, as to which the date is April 14, 2009)

VUZIX CORPORATION
F/K/A ICUITI CORPORATION

CONSOLIDATED BALANCE SHEETS

	June 30, 2009 (Unaudited)	June 30, 2008 (Unaudited)	December 31, 2008	December 31, 2007 (As restated)	December 31, 2006
ASSETS					
Current Assets					
Cash and Cash Equivalents	$ 285,126	$ 103,993	$ 818,719	$ 364,856	$ 569,171
Accounts Receivable, Net (Note 3)	590,625	487,296	1,413,611	2,908,224	1,977,103
Inventories (Note 4)	1,930,319	3,558,695	2,307,321	1,984,465	1,157,733
Prepaid Income Taxes	130,130	130,130	130,130	130,130	—
Prepaid Expenses and Other Assets	61,741	176,514	41,390	108,525	2,500
Total Current Assets	2,997,941	4,456,628	4,711,171	5,496,200	3,706,507
Tooling and Equipment, Net (Note 5)	637,202	830,264	825,924	857,170	781,979
Patents and Trademarks, Net (Note 6)	715,958	652,591	684,802	613,884	524,777
Total Assets	$ 4,351,101	$ 5,939,483	$ 6,221,897	$ 6,967,254	$ 5,013,263
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities					
Accounts Payable	$ 3,674,162	$ 5,235,538	$ 4,763,321	$ 4,029,630	$ 2,743,349
Lines of Credit (Note 7)	88,548	199,165	202,290	78,400	92,237
Current Portion of Long-term Debt	500,000	500,000	500,000	—	200,000
Current Portion of Capital Leases	111,016	139,800	139,800	171,778	155,625
Customer Deposits (Note 8)	1,181,076	316,121	729,677	46,637	125,584
Accrued Expenses (Note 9)	250,039	181,869	185,960	171,872	319,946
Income Taxes Payable	1,776	34,875	36,412	31,225	—
Total Current Liabilities	5,806,617	6,607,359	6,557,460	4,529,542	3,636,741
Long-Term Liabilities					
Accrued Compensation (Note 10)	445,096	445,096	445,096	445,096	445,096
Long Term Portion of Long-Term Debt (Note 11)	379,208	284,208	379,208	784,208	991,188
Long Term Portion of Capital Leases (Note 12)	129,876	234,237	180,328	247,052	216,519
Accrued Interest	468,651	369,269	425,448	314,921	211,574
Cumulative Dividends Payable on Preferred Stock	374,849	273,749	324,299	223,199	122,099
Total Long-Term Liabilities	1,797,680	1,6606,559	1,754,379	2,014,476	1,980,476
Total Liabilities	7,604,297	8,213,918	8,311,839	6,544,018	5,617,217
Stockholders' Equity					
Series C Preferred Stock — $.001 Par Value, 500,000 Shares Authorized; (Refer to Note 14 for Series A, Series B and Unauthorized Preferred Stock) 168,500 Shares Issued and Outstanding in Each Period (Note 14)	169	169	169	169	169
Common Stock — $.001 Par Value, 400,000,000 Shares Authorized; 220,268,927, 200,424,027 Shares Issued and Outstanding June 30, Respectively 218,268,927, 197,973,139 and 173,268,048 Shares Issued and Outstanding December 31, Respectively	220,269	201,977	218,269	197,972	173,268
Additional Paid-in Capital	12,979,093	10,355,017	12,700,413	10,238,589	6,115,622
Accumulated (Deficit)	(16,225,391)	(12,510,081)	(14,687,276)	(9,691,977)	(6,531,363)
Subscriptions Receivable (Note 19)	(227,336)	(321,517)	(321,517)	(321,517)	(361,650)
Total Stockholders' Equity	(3,253,196)	(2,274,435)	(2,089,942)	423,236	(603,954)
Total Liabilities and Stockholders' Equity	$ 4,351,101	$ 5,939,483	$ 6,221,897	$ 6,967,254	$ 5,013,263

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

VUZIX CORPORATION
F/K/A ICUITI CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional	Retained	Preferred Stock		Subscriptions	
	Shares	Amount	Paid-In Capital	Deficit	Shares	Amount	Receivable	Total
Balance — December 31, 2005	173,245,191	$173,245	$ 5,593,693	$ (5,718,223)	123,000	$ 123	$ (266,240)	$ (217,402)
Issuance of Preferred Stock	—	—	407,604	—	45,500	46	—	407,650
Dividends	—	—	—	(93,186)	—	—	—	(93,186)
Stock Compensation Expense	—	—	18,418	—	—	—	—	18,418
Exercise of Stock Options	22,857	23	497	—	—	—	—	520
Extension of Subscriptions Receivable	—	—	95,410	—	—	—	(95,410)	—
2006 Net Loss	—	—	—	(719,954)	—	—	—	(719,954)
Balance — December 31, 2006	173,268,048	173,268	6,115,622	(6,531,363)	168,500	169	(361,650)	(603,954)
Warrants Issued for Services	—	—	78,275	—	—	—	—	78,275
Exercise of Stock Options	402,483	402	5,328	—	—	—	—	5,730
Exercise of Stock Warrants	177,136	177	1,373	—	—	—	—	1,550
Issuance of Common Stock	23,125,472	23,125	3,767,686	—	—	—	—	3,790,811
Conversion of Debt into Stock	1,000,000	1,000	199,000	—	—	—	—	200,000
Stock Compensation Expense	—	—	111,438	—	—	—	—	111,438
Dividends	—	—	—	(101,100)	—	—	—	(101,100)
Extension of Subscriptions Receivable	—	—	(40,133)	—	—	—	40,133	—
2007 Net Loss	—	—	—	(3,059,514)	—	—	—	(3,059,514)
Balance — December 31, 2007 (As Restated)	197,973,139	197,972	10,238,589	(9,691,977)	168,500	169	(321,517)	423,236
Exercise of Options	2,450,888	2,451	14,245	—	—	—	—	16,696
Issuance of Common Stock	15,847,517	15,848	2,122,798	—	—	—	—	2,138,646
Exercise of Stock Warrants	1,552,936	1,553	12,033	—	—	—	—	13,586
Stock Issued for Services	444,447	444	66,223	—	—	—	—	66,667
Dividends	—	—	—	(101,100)	—	—	—	(101,100)
Warrants Issued for Services	—	—	66,227	—	—	—	—	66,227
Stock Compensation Expense	—	—	180,298	—	—	—	—	180,298
2008 Net Loss	—	—	—	(4,894,199)	—	—	—	(4,894,199)
Balance — December 31, 2008	218,268,927	$218,269	$ 12,700,413	$(14,687,276)	168,500	$ 169	$ (321,517)	$(2,089,942)
Exercise of Options	—	—	—	—	—	—	—	—
Issuance of Common Stock	2,000,000	2,000	298,000	—	—	—	—	300,000
Exercise of Stock Warrants	—	—	—	—	—	—	—	—
Stock Issued for Services	—	—	—	—	—	—	—	—
Repurchase of Fractional Shares	—	—	(2)		—	—	—	(2)
Dividends	—	—	—	(50,550)	—	—	—	(50,550)
Warrants Issued for Services	—	—	—	—	—	—	—	—
Stock Compensation Expense	—	—	90,065	—	—	—	—	40,689
Direct IPO Associated Expense	—	—	(96,248)		—	—	—	(96,248)
Adjustment of Subscriptions Receivable	—	—	(94,181)	—	—	—	94,181	—
Net Loss for the 6 months ended June 30, 2009	—	—	—	(1,487,565)	—	—	—	(1,487,565)
Balance — June 30, 2009 (Unaudited)	220,268,927	$220,269	$ 12,979,094	$(16,225,391)	168,500	$ 169	$ (321,517)	$(3,253,196)

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

VUZIX CORPORATION
F/K/A ICUITI CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	For Years Ended December 31,		
	2008	2007 (As restated)	2006
Sales of Products	$ 10,941,181	$ 4,701,004	$ 6,910,866
Sales of Engineering Services	1,548,703	5,445,375	2,627,442
Total Sales	12,489,884	10,146,379	9,538,308
Cost of Sales — Products	7,769,916	3,407,340	4,269,908
Cost of Sales — Engineering Services	1,018,989	3,376,133	1,497,642
Total Cost of Sales	8,788,905	6,783,473	5,767,550
Gross Profit	3,700,979	3,362,906	3,770,758
Operating Expenses:			
Research and Development	3,366,518	2,365,412	1,279,239
Selling and Marketing	2,128,625	1,920,164	1,191,800
General and Administrative	2,299,685	1,718,627	1,560,278
Depreciation and Amortization	510,133	374,078	276,989
Total Operating Expenses	8,304,961	6,378,281	4,308,306
Loss from Operations	(4,603,982)	(3,015,375)	(537,548)
Other Income (Expense)			
Interest and Other (Expense) Income	188	2,549	313
Foreign Exchange Gain (Loss)	(24,216)		
Legal Settlement	—	96,632	—
Interest Expenses	(260,977)	(241,692)	(179,019)
Total Other Income (Expense)	(285,005)	(142,511)	(178,706)
Loss Before Provision for Income Taxes	(4,888,987)	(3,157,886)	(716,254)
Provision (Benefit) for Income Taxes (Note 13)	5,212	(98,372)	3,700
Net Loss	$ (4,894,199)	$ (3,059,514)	$ (719,954)
Basic and Diluted Loss per Share	$ (0.0240)	$ (0.0176)	$ (0.0047)
Weighted-average Shares Outstanding — Basic and Diluted	207,710,498	185,263,660	173,254,715

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

	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales of Products	$ 1,946,868	$ 2,960,332	4,516,732	4,489,988
Sales of Engineering Services	116,865	127,006	568,355	317,994
Total Sales	2,063,733	3,087,338	5,082,087	4,807,982
Cost of Sales — Products	1,324,063	1,795,529	2,915,596	3,144,031
Cost of Sales — Engineering Services	66,756	76,132	306,265	214,708
Total Cost of Sales	1,390,819	1,871,661	3,221,861	3,358,739
Gross Profit	672,914	1,215,677	1,860,226	1,449,243
Operating Expenses:				
Research and Development	428,737	1,224,265	945,897	1,960,982
Selling and Marketing	520,257	483,695	976,041	933,257
General and Administrative	534,142	438,831	990,729	972,630
Depreciation and Amortization	167,509	123,696	306,343	247,392
Total Operating Expenses	1,650,645	2,270,487	3,219,010	4,114,261
Loss from Operations	(977,731)	(1,054,810)	(1,358,784)	(2,665,018)
Other Income (Expense)				
Interest and Other (Expense) Income	11		59	166
Foreign Exchange Gain (Loss)	(3,657)	(300)	(4,969)	(33)
Interest Expenses	(56,711)	(57,353)	(122,095)	(99,019)
Total Other Income (Expense)	(60,357)	(57,653)	(127,005)	(98,886)
Loss Before Provision for Income Taxes	(1,038,088)	(1,112,463)	(1,485,789)	(2,763,904)
Provision (Benefit) for Income Taxes (Note 13)	888	2,897	1,776	3,650
Net Loss	(1,038,976)	$ (1,115,360)	(1,487,565)	(2,767,554)
Basic and Diluted Loss per Share	$ (0.0048)	$ (0.0057)	(0.0070)	(0.0141)
Weighted-average Shares Outstanding — Basic and Diluted	220,268,927	200,424,027	219,935,594	200,015,546

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

VUZIX CORPORATION
F/K/A ICUITI CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For Six Months Ended June 30,		For Years Ended December 31,		
	2009	2008	2008	2007	2006
	(Unaudited)	(Unaudited)		(As restated)	
Cash Flows from Operating Activities					
Net Loss	$(1,487,565)	$(2,767,554)	$(4,894,199)	$(3,059,514)	$ (719,954)
Non-Cash Adjustments					
Depreciation and Amortization	306,343	247,392	510,133	374,078	276,989
Stock-Based Compensation Expense	90,065	90,149	180,298	111,438	18,418
Stock Issued for Services	—	—	66,667	—	—
Warrants Issued for Services	—	—	66,227	78,275	—
(Increase) Decrease in Operating Assets					
Accounts Receivable	822,986	2,420,928	1,494,613	(931,121)	(1,226,116)
Inventories	377,002	1,574,230	(322,856)	(826,732)	(362,118)
Prepaid Income Taxes	—	—		(130,130)	—
Prepaid Expenses and Other Assets	(20,351)	(67,989)	67,135	(106,025)	4,919
Increase (Decrease) in Operating Liabilities					
Accounts Payable	(1,089,560)	(1,205,909)	733,691	1,580,255	1,496,609
Accrued Expenses	64,077	9,988	14,088	(175,574)	289,124
Customer Deposits	451,399	269,484	683,040	(78,947)	(117,722)
Income Taxes Payable	(34,636)	3,650	5,187	31,225	3,192
Accrued Commissions	—	—	—	(266,475)	266,475
Accrued Compensation	—	—	—		135,000
Accrued Interest	43,303	54,348	110,527	103,347	55,237
Net Cash Flows (Used in) Provided From Operating Activities	(476,637)	(107,925)	(1,285,449)	(3,295,900)	120,053
Cash Flows from Investing Activities					
Purchases of Tooling and Equipment	(81,837)	(193,126)	(424,166)	(180,310)	(370,188)
Investments in Patents and Trademarks	(66,940)	(66,067)	(125,638)	(136,433)	(109,048)
Net Cash Used in Investing Activities	(148,777)	(259,193)	(549,804)	(316,743)	(479,236)
Cash Flows from Financing Activities					
Net Change in Lines of Credit	(113,742)	120,765	123,890	(13,837)	(115,138)
Issuance of Common Stock	300,000	—	2,138,646	3,792,362	—
Issuance of Preferred Stock	—	—	—	—	407,650
Repayment of Capital Leases	(79,236)	(44,793)	(98,702)	(168,947)	(121,135)
Prepayment of Long-Term Debt	—	—	—	(206,980)	(22,328)
Exercise of Stock Options	—	16,697	16,696	5,730	520
Exercise of Stock Warrants	—	13,586	13,586	—	—
Direct IPO Associated Costs	(92,248)				
Adjustment of Subscription Receivable	81,046				
Proceeds from Long-Term Debt	—	—	95,000	—	725,000
Net Cash Flows Provided by Financing Activities	91,820	106,255	2,289,116	3,408,328	874,569
Net Increase (Decrease) in Cash and Cash Equivalents	(533,594)	(260,863)	453,863	(204,315)	515,386
Cash and Cash Equivalents — Beginning of Year	818,719	364,856	364,856	569,171	53,785
Cash and Cash Equivalents — End of Year	$ 285,126	$ 103,993	$ 818,719	$ 364,856	$ 569,171
Supplemental Disclosures					
Interest Paid	78,892	41,889	149,214	138,345	179,019
Income Taxes Paid	36,412	425	425	3,725	1,950
Non-Cash Investing Transactions					
Equipment Acquired Under Capital Lease	—	—	89,833	221,633	317,932
Equipment Acquired Through Assumption of Long-Term Debt	—	—	—	—	62,010
Dividends Declared but Not Paid	50,550	50,550	101,100	101,100	93,186
Debt Converted to Equity	—	—	—	200,000	

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

VUZIX CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts and disclosures at and for the three and six months ended June 30, 2009 and 2008 are unaudited)

Note 1 — Basis of Presentation

The unaudited Consolidated Financial Statements of Vuzix Corporation and Subsidiary (the "Company") for the three months ending June 30, 2009 and 2008 have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information. Accordingly, the Consolidated Financial Statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The results for the interim periods are not necessarily indicative of the results to be expected for the year. The accompanying Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements of the Company as of December 31, 2008, as included with these consolidated financial statements.

Note 2 — Nature of Business and Summary of Significant Accounting Policies

The Company

Vuzix Corporation (the Company) was formed in 1997 under the laws of the State of Delaware and maintains its corporate offices in Rochester, New York. The Company changed its name to Vuzix Corporation in September 2007, being previously known as Icuiti Corporation. The Company is engaged in the design, manufacture, marketing and sale of devices that are worn like eyeglasses and which feature built-in video screens that enable the user to view video and digital content, such as movies, computer data, the Internet or video games. Our products (known commercially as "Video Eyewear") are used to view high resolution video and digital information from portable devices, such as cell phones, portable media players, gaming systems and laptop computers and from personal computers. Our products provide the user with a virtual viewing experience that emulates viewing a large screen television or desktop computer monitor practically anywhere, anytime.

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 Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information."

Shipments to customers outside of the United States approximated 20%, 12% and 5% of sales in 2008, 2007 and 2006, respectively. No single international country represented more than 10% of revenues. The Company does not maintain significant amounts of long-lived assets outside of the United States other than tooling held by its third party manufacturers, primarily in China.

The Company has at times had a concentration of sales to the U.S. government and they amounted to approximately 12% and 54% of sales in 2008 and 2007, respectively. Accounts receivable from the U.S. government accounted for 31% and 19% of accounts receivable at 2008 and 2007, respectively. Another customer, who is also a minority stockholder, represented 20% and 17% of sales in 2008 and 2007, respectively.

Principles of Consolidation

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

VUZIX CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Foreign Currency Translation

The U.S. dollar is the functional currency of the Company's foreign subsidiary. Monetary assets and liabilities are re-measured at year-end exchange rates. Non-monetary assets and liabilities are re-measured at historical rates. Revenues, expenses, gains and losses are re-measured using the rates on which those elements were recognized during the period.

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 performs ongoing credit evaluations of its customers' financial condition and maintains an allowance for uncollectible accounts receivable based upon the expected collectability of all accounts receivable. As of December 31, 2008, one customer, represented 31% of net accounts receivable and was subsequently received during 2009.

For cash management purposes, the Company concentrates its cash holdings in two accounts at the JP Morgan Chase Bank. The balance in these accounts may exceed the federally insured limit of $250,000 per customer by the Federal Deposit Insurance Corporation in case of bank failure. At December 31, 2008 and 2007, the Company had $462,808 and $250,851 in excess of the insurance limit at this bank.

Cash and Cash Equivalents

The Company's cash received is applied against its two revolving lines of credit on a periodic basis based projected monthly cash flows, reducing interest expense. 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 consists of cash and cash equivalents, accounts receivable, inventories, prepaid income taxes, prepaid expenses and other assets, accounts payable, lines of credit, current portion of long-term debt and capital leases, customer deposits, accrued expenses, and income taxes payable.

As of the consolidated balance sheet date, 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 and that the interest rates on the borrowing approximate those that would have been available for loans for similar remaining maturity and risk profiles at respective year ends.

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.

Provision for Future Warranty Costs

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. The Company's products are covered by standard warranty plans that extend normally 12 months to 24 months from the date of product shipment. The Company provides 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. As of December 31, 2008, the Company's provision for future warranty claims was $106,865 compared to $73,064 as of December 31, 2007, with the increase attributable primarily to increased revenue from product shipments.

Inventories

Inventories are valued at the lower of cost, or market using the first-in, first-out method. The Company does not include any direct overheads costs in its inventory valuation costing, as such amounts have been immaterial in its current and prior fiscal years. 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 recognizes revenue from product sales in accordance with the SEC Staff Accounting Bulletin No. 104, "Revenue Recognition." Product sales represent the majority of the Company's revenue. The Company recognizes revenue from these product sales when persuasive evidence of an arrangement exists, delivery has occurred or services have been provided, the sale price is fixed or determinable, and collectability is reasonably assured. Additionally, the Company sells its products on terms which transfer title and risk of loss at a specified location, typically shipping point. Accordingly, revenue recognition from product sales occurs when all factors are met, including transfer of title and risk of loss, which typically occurs upon shipment by the Company. If these conditions are not met, the Company will defer revenue recognition until such time as these conditions have been satisfied. The Company collects and remits sales taxes in certain jurisdictions and reports revenue net of any associated sales taxes. The Company also sells certain products through distributors who are granted limited rights of return for stock balancing against purchases made within a prior 90 day period, including price adjustments downwards that the Company implements on any existing inventory. The provision for product returns and price adjustments is assessed for adequacy both at the time of sale and at each quarter end and is based on recent historical experience and known customer claims.

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. Amounts are generally billed on a monthly basis. To date all such contracts have been less than one calendar year in duration.

VUZIX CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Tooling and Equipment

Tooling and equipment are stated at cost. Depreciation of tooling and equipment is provided for using the straight-line method over the following estimated useful lives:

Computers and Software	3 years
Manufacturing Equipment	5 years
Tooling	3 years
Furniture and Equipment	5 years

Repairs and maintenance costs are expensed as incurred. Asset betterments are capitalized.

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 application is abandoned or discontinued.

Long-Lived Assets

The Company regularly assesses all of its long-lived assets for impairment when events or circumstances indicate their carrying amounts may not be recoverable, in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.”

Research and Development

Research and development costs, are expensed as incurred and include employee related costs, office expenses, third party design and engineering services, and new product prototyping costs.

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 goods sold, respectively, in accordance with EITF Issue No. 00-10, “Accounting for Shipping and Handling Fees and Costs.”

Advertising

Advertising costs are expensed as incurred and recorded in “Selling and marketing” in the Consolidated Statements of Operations. Advertising expense amounted to $1,009,992, $893,973 and $291,800 for 2008, 2007 and 2006, respectively.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109. 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.

Earnings Per Share

Basic earnings per share is computed by dividing the net (loss) income less accrued dividends on the Series C 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 applying the treasury stock method and the conversion of any outstanding convertible preferred shares or notes payable that are-in-the-money, applying the as-if-converted method. However, the assumed exercise of stock options and warrants and the conversion of preferred shares or notes payable are anti-dilutive, therefore basic and diluted earnings per share are the same for all periods. All share and per-share amounts in the accompanying consolidated financial statements and notes to the consolidated financial statements have been adjusted to apply the effect of the reverse stock split (one-for-seven) in 2007 and the forward stock split (eight-for-one) in 2008.

Stock-Based Employee Compensation

Effective January 1, 2006, the provisions of SFAS No. 123 (revised 2004), "Share-Based Payment," and related interpretations were adopted. SFAS No. 123(R) requires that compensation expense be recognized in the consolidated financial statements for share-based awards based on the grant-date fair value of those awards. The Company elected to not adopt SFAS No. 123(R) for any stock options granted prior to December 31, 2005 which had unrecognized compensation expense at January 1, 2006, and has instead applied it to only new share-based awards granted subsequent to December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). In all cases the Company used the fair market value of our common stock on the date of each option grant was determined based on last most recent cash sale of common stock in an arm's length transaction with an unrelated third party. During each of the last four fiscal years, we engaged in at least one such transaction that was used to determine the fair market value of stock-based compensation in each year. Stock-based compensation expense includes an estimate for pre-vesting forfeitures and is recognized over the requisite service periods of the awards on a straight-line or graded vesting basis, which is generally commensurate with the vesting term. As a result of the adoption of SFAS No. 123(R), stock-based compensation expense associated with stock option grants of $180,298, $111,438 and $18,418 was recorded in 2008, 2007 and 2006, respectively.

The Company issues new shares upon stock option exercises. Please refer to Note J, *Stock-based Compensation Expense*, for further information.

Fair Value Measurements

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. The Company has adopted the provisions of SFAS No. 157 as of January 1, 2008 for financial instruments. This standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. Further, the Company has taken into consideration the guidance promulgated in FASB Staff Position No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active," in estimating the fair value of its financial instruments. The adoption of SFAS 157 was not material to the Company's consolidated financial statements or results of operations.

SFAS No. 157 establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the asset or liability. Such inputs include quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs derived principally from or corroborated by observable market data by

correlation or other means. Level 3 inputs are unobservable inputs for the asset or liability. Such inputs are used to measure fair value when observable inputs are not available.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations," a revision to SFAS No. 141, "Business Combinations." SFAS No. 141(R) provides revised guidance for recognition and measurement of identifiable assets and goodwill acquired, liabilities assumed and any non-controlling interest in the acquiree at fair value. The Statement also establishes disclosure requirements to enable the evaluation of the nature and financial effects of a business combination. SFAS No. 141(R) is required to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The impact of the adoption of SFAS 141(R) on our consolidated financial position and results of operations will be dependent on the size and nature of business combinations, if any, completed after the adoption of this Statement.

In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements — an amendment of ARB No. 51." This Statement establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent. Specifically, SFAS No. 160 requires the presentation of non-controlling interests as equity in the Consolidated Balance Sheets, and separate identification and presentation in the Consolidated Statements of Income of net income attributable to the entity and the non-controlling interest. It also establishes accounting and reporting standards regarding deconsolidation and changes in a parent's ownership interest. SFAS No. 160 is effective as of January 1, 2009. The provisions of SFAS No. 160 are generally required to be applied prospectively, except for the presentation and disclosure requirements, which must be applied retrospectively. We do not expect the adoption of SFAS No. 160 to have a material effect on our consolidated financial statements.

In February 2008, the FASB issued FSP FAS 157-2, which delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually). This FSP partially deferred the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. This FSP will be adopted by the Company in the first quarter of fiscal year 2009, and is not expected to have a material impact on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133." This statement enhances the disclosure requirements related to derivative instruments and hedging activity to improve the transparency of financial reporting, and is effective for fiscal years and interim periods beginning after November 15, 2008. We do not expect the impact of adoption of SFAS No. 161 will have a material effect on our consolidated financial statements.

Note 3 — Accounts Receivable, Net

Accounts receivable consisted of the following:

December 31,	2008	2007
Accounts Receivable	$1,417,870	$2,908,224
Less: Allowance for Doubtful Accounts	(4,259)	—
Net	$1,413,611	$2,908,224

VUZIX CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 4 — Inventories, Net

Inventories consisted of the following:

December 31,	2008	2007
Purchased Parts and Components	$2,091,734	$1,656,093
Work in Process	130,351	197,413
Finished Goods	539,883	211,994
Less: Reserve for Obsolescence	(454,647)	(81,035)
Net	$2,307,321	$1,984,465

Note 5 — Tooling and Equipment, Net

Tooling and equipment consisted of the following:

December 31,	2008	2007
Tooling and Manufacturing Equipment	$ 1,567,537	$ 1,247,402
Computers and Software	522,274	463,847
Furniture and Equipment	360,695	315,091
	$ 2,450,506	$ 2,026,340
Less: Accumulated Depreciation and Amortization	(1,624,582)	(1,169,170)
Net	$ 825,924	$ 857,170

Total depreciation expense for tooling and equipment for 2008, 2007 and 2006 was $455,412, $326,752, and $237,592, respectively.

Note 6 — Patents and Trademarks, Net

December 31,	2008	2007
Patents and Trademarks	$ 899,952	$ 774,314
Less: Amortization	(215,150)	(160,430)
Net	$ 684,802	$ 613,884

Total amortization expense for patents and trademarks for 2008, 2007 and 2006 was $54,720, $47,326, and $39,397, respectively. The estimated aggregate amortization expense for each of the next five fiscal years is $57,175.

Note 7 — Lines of Credit

The Company has available a $100,000 line of credit secured by the personal guarantee of an officer of the Company with interest payable at the bank's prime rate plus 4.24%. The outstanding balance on the line of credit amounted to $96,040 and $78,400 at December 31, 2008 and 2007, respectively. The prime rate at 2008 was 3.25%.

The Company also has available a $112,500 line of credit with interest payable at the bank's prime rate plus 1%. The line is unsecured and personally guaranteed by an officer of the Company. The outstanding balance on the line of credit amounted to $106,250 and $0 at December 31, 2008 and 2007, respectively.

VUZIX CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 8 — Customer Deposits

Customer deposits represents money the Company received in advance of providing a product or engineering services to a customer. Such deposits are short term in nature as the Company delivers the product or engineering services to the customer before the end of its next annual fiscal period.

Note 9 — Accrued Expenses

Accrued expenses consisted of the following:

December 31,	2008	2007
Accrued Wages and Related Costs	$ 25,478	$ 65,194
Accrued Professional Services	40,000	27,500
Accrued Warranty Obligations	106,865	73,064
Other Accrued Expenses	13,617	6,114
Total	$185,960	$171,872

The Company has warranty obligations in connection with the sale of certain of its products. The warranty period for its products is generally one year except in European countries where it is two years. 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 on product-based historical performance rates and related costs to repair. The changes in the Company's accrued warranty obligations for 2008, 2007 and 2006 were as follows:

Accrued Warranty Obligations at January 1, 2006	$ 15,361
Actual Warranty Experience	(28,317)
Warranty Provisions	55,431
Accrued Warranty Obligations at December 31, 2006	$ 42,475
Actual Warranty Experience	(48,710)
Warranty Provisions	79,299
Accrued Warranty Obligations at December 31, 2007	$ 73,064
Actual Warranty Experience	(71,244)
Warranty Provisions	105,045
Accrued Warranty Obligations at December 31, 2008	$106,865

Note 10 — Accrued Compensation

Accrued compensation represents amounts owed to officers of the Company for services rendered prior to 2007 that remain outstanding. The principal is not subject to a fixed repayment schedule, and interest on the outstanding balance is payable at 8% per annum. Interest expense related to accrued compensation amounts to $35,608, $35,608 and $24,808 for the years ended December 31, 2008, 2007 and 2006, respectively. Total accrued interest on the accrued compensation was $154,753 and $119,145 as of December 31, 2008 and 2007, respectively and these amounts are included in Accrued Interest, under the Long-Term Liabilities portion of the consolidated balance sheet.

VUZIX CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 11 — Long-Term Debt

Long-term debt consisted of the following at December 31:

December 31,	2008	2007
Note payable to an officer of the Company. The principal is not subject to a fixed repayment schedule, bears interest at 8% per annum and is secured by all of the assets of the Company	$209,208	$209,208
During October 2008, entered into an agreement with an officer of the Company, whereby the officer agrees to make loans from time to time to the Company through December 31, 2010, accruing interest on the outstanding balance at 12%, secured by all of the assets of the Company	95,000	—
Bridge loans in the original amount of $15,000 to stockholders of the Company with no fixed date of repayment, accruing interest at 7.5% and are unsecured. The Company has granted holders the same conversion terms as the $60,000 in notes below	15,000	15,000
Convertible promissory notes in the original amount of $60,000. These notes bear interest at 8% and are unsecured. There is no set date of repayment	60,000	60,000
Convertible Notes payable bearing interest at 10% and is secured by all the assets of the Company	500,000	500,000
	$879,208	$784,208
Less: Amount Due Within One Year	500,000	—
Amount Due After One Year	$379,208	$784,208

The aggregate maturities for all long-term borrowings as of December 31, 2008 are as follows:

2009	2010	2011	2012	2013	Thereafter	Total
$ 500,000	$95,000	$ —	$ —	$ —	$284,208	$879,208

Include above are convertible promissory notes and bridge loans that the Company has issued. The notes and loans may be converted into the Company's common stock at $0.0571 per share. Unpaid, accrued interest on these notes and loans amounts to $48,717 and $40,085 at December 31, 2008 and 2007, respectively. The total potential conversions of these notes and loans along with accrued interest amounted to 2,144,522 and 2,013,078 shares at December 31, 2008 and 2007, respectively.

Included above is a $500,000 convertible note payable due to a related party. The note may be converted into the Company's common stock at $0.2667 per share. Unpaid accrued interest on this note amounted to $114,247 and $64,110 at December 31, 2008 and 2007, respectively. The total potential note conversion along with accrued interest amounted to 2,303,138 and 2,115,148 shares at December 31, 2008 and 2007, respectively. This note was due January 31, 2009 and was still outstanding as of June 30, 2009. The interest rate has changed to 18% onwards and the note principal is now being rolled-over on a month to month basis.

VUZIX CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 12 — Capital Lease Obligations

The Company maintains equipment held under capital lease obligations due in monthly installments ranging from $95 to $2,811 including interest at rates ranging from 0.00% to 20.08%. The related equipment is collateral to the leases. Final payments are due through September, 2011.

December 31,	2008	2007
Total Principal Payments	$ 320,128	$ 418,830
Less: Amount Due Within One Year	(139,800)	(171,778)
Amount Due After One Year	$ 180,328	$ 247,052

Annual requirements for retirement of the capital lease obligations are as follows:

December 31,	Amount
2009	$244,610
2010	109,498
2011	30,301
2012	—
2013	—
Total Minimum Lease Payments	$384,409
Less: Amount Representing Interest	(64,281)
Present Value of Minimum Lease Payments	$320,128

The following is a summary of assets held under capital leases:

December 31,	2008	2007
Tooling and Manufacturing Equipment	$ 390,940	$ 313,657
Computers and Software	315,591	303,042
Furniture and Equipment	112,648	112,648
	$ 819,179	729,347
Less: Accumulated Depreciation	(490,866)	(286,127)
Net	$ 328,313	$ 443,220

Depreciation expense related to the assets under capital lease amounted to $204,739, $175,114, and $98,043 for years ended December 31, 2008, 2007, and 2006, respectively.

Note 13 — Income Taxes

The Company files U.S. federal, and U.S. state tax returns. At December 31, 2008, the Company had unrecognized tax benefits totaling $2,962,000, of which would have a favorable impact on our tax provision (benefit), if recognized.

Pre-tax earnings consisted of the following for the years ended December 31, 2008, 2007 and 2006:

December 31,	2008	2007	2006
Total Pre-Tax (Loss) Earnings	$(4,888,987)	$(3,157,886)	$(716,254)

VUZIX CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The provision (benefit) for income taxes was as follows:

December 31,	2008	2007	2006
Current Income Tax Provision (Benefit)			
Federal	$ —	$ —	$ —
State	5,212	(98,372)	3,700
Net Change in Liability for Unrecognized Tax Benefits	—	—	—
	$5,212	$(98,372)	$3,700
Deferred Provision (Benefit)	—	—	—
Total Provision (Benefit)	$5,212	$(98,372)	$3,700

A reconciliation of the statutory U.S. federal income tax rate to the effective rates is as follows:

December 31,	2008	2007	2006
Federal Income Tax at Statutory Rate	34.0%	34.0%	34.0%
State Tax Provision, Net of Federal Benefit	—	(0.3)%	(0.2)%
Meals and Entertainment	(0.30)%	(0.3)%	(0.8)%
Stock Compensation Expense	(1.3)%	(1.2)%	(0.9)%
Research and Development Credits	(2.1)%	(2.5)%	(6.2)%
Other	—	—	(0.2)%
Effective Tax Rate	30.3%	29.7%	25.7%
Change in Valuations Allowance	(30.3)%	(29.7)%	(25.7)%
Net Effective Tax Rate	0.0%	0.0%	0.0%

VUZIX CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Deferred tax assets (liabilities) consist of the following:

December 31,	2008	2007
Assets		
Current		
Inventory and Inventory Related Items	$ 68,000	$ 12,000
Bad Debt and Note Receivable Reserves	1,000	—
Non-Current		
Net Operating Loss Carryforwards	1,825,000	1,235,000
Stock Compensation Expense	—	—
Tax Credit Carryforwards	946,000	656,000
Depreciation	—	—
Other	122,000	102,000
Total Gross Deferred Tax Assets	$ 2,962,000	$ 2,005,000
Valuation Allowance — 100%	(2,962,000)	(2,005,000)
Total Net Deferred Tax Assets	$ —	$ —
Liabilities		
Current		
New York State Refund	$ (19,000)	$ —
Total Gross Deferred Tax Liabilities	(19,000)	—
Valuation Allowance — 100%	19,000	—
Total Net Deferred Tax Liability	$ —	$ —
Net Deferred Tax	$ —	$ —

December 31,	2008	2007
Net Current Deferred Tax Assets	$ —	$ —
Net Long-Term Deferred Tax Assets	$ —	$ —

In 2008 and 2007, the Company generated federal and state net operating losses for income tax purposes. These federal and state net operating loss carryforwards, which total approximately $12,200,000 at December 31, 2008 and begin to expire in 2018, if not utilized. Of the Company's tax credit carryforwards, $946,000 expire between 2017 and 2018, if not utilized.

Deferred tax assets, including carryforwards and other attributes, are reviewed for expected realization and a valuation allowance is established when appropriate to reduce the assets to their estimated net realizable value. Expected realization of deferred tax assets is dependent upon sufficient taxable income in the appropriate jurisdiction and period that is also of the appropriate character. The Company has evaluated the availability of such taxable income, the nature of its deferred tax assets and the relevant tax laws in determining the net realizable value of its deferred tax assets.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. As a result of the implementation of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), we recognize liabilities for uncertain tax positions based on the two-step process prescribed within the interpretation. 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 following table summarizes the activity in the valuation allowance account for 2008 and 2007:

Balance, January 1, 2007	$1,682,700
Additions Relating to Uncertain Future Realization of	
Net Operating Losses	245,500
State Research and Development Tax Credits	76,800
Balance, December 31, 2007	$2,005,000
Additions Relating to Uncertain Future Realization of	
Net Operating Losses	855,000
State Research and Development Tax Credits	102,000
Balance, December 31, 2008	$2,962,000

Note 14 — Preferred Stock

Series A Preferred Stock par value $0.001 (Authorized 725,000; 0 shares issued and outstanding)

Series A preferred stockholders do not have the right to vote on any matter submitted to the stockholders of the Company for vote, consent, or approval. The Company may at any time redeem all or any portion of Series A preferred stock outstanding at a price per share equal to the liquidation value. The holders of Series A preferred stock may elect to require the Company to redeem on or after November 20, 2007 at the liquidation value of all of the then outstanding shares of Series A preferred Stock.

Series B Preferred Stock par value $0.001 (Authorized 1,020,681; 0 shares issued and outstanding)

Holders of Series B preferred stock shall have voting rights for all matters voted on by stockholders of the Company. Each Series B preferred stockholder shall have that number of votes equal to the number of whole common shares into which the stockholder's Series B preferred stock could be converted on that date. Each share of Series B preferred stock shall be convertible, at the option of the holder, into fully paid and non-assessable shares of common stock at the Conversion Ratio, as defined in the Articles of Incorporation. The initial conversion price of Series B preferred stock was $0.10.

Series C Preferred Stock par value $0.001 (Authorized 500,000; 168,500 shares issued and outstanding)

Holders of Series C preferred stock shall have voting rights for all matters voted on by stockholders of the Company. Each Series C preferred stockholder shall have that number of votes equal to the number of whole common shares into which the stockholder's Series C preferred stock could be converted on that date. Each share of 6% Cumulative Series C preferred stock shall be convertible, at the option of the holder, into 34.29 shares of common stock. The Series C preferred stock is redeemable at the option of the Company at any time after June 30, 2007 for $10 per share plus accrued, unpaid dividends.

Preferred stock

Shares of undesignated preferred stock may be issued in one or more series. The balance of undesignated preferred stock is 4,500,000 as at December 31, 2008. The Board of Directors is authorized to establish and designate the different series and to fix and determine the voting powers and other special rights and qualifications.

Preferred dividends

Cumulative preferred dividends on the Series C series totaled $324,299 as of December 31, 2008 and $223,199 as of December 31, 2007. These cumulative dividends in arrears represented an average $1.92 per share as of December 31, 2008 and an average of $1.32 per share as of December 31, 2007. As of June 30, 2009 total accrued dividends were $349,574 or an average of $2.07 per share.

Note 15 — Stock Split

Effective July 16, 2008, the Company effected a stock split of its common stock whereby each one share of Common Stock, par value $0.001 per share, of the Company's outstanding stock were reclassified and changed into eight shares of Common Stock, par value $0.001 per share.

Effective June 28, 2007 the Company effected a reverse stock split of its common stock whereby each seven shares of Common Stock, par value $0.001 per share, of the Company's outstanding stock were reclassified and changed into one share of Common Stock, par value $0.001 per share.

Both the stock split and reverse share consolidation affected the shares outstanding and pricing for convertible debt, stock subscriptions, incentive stock options, stock warrants and stockholders' equity disclosures. All share and per-share amounts in the accompanying consolidated financial statements and notes to the consolidated financial statements have been adjusted to apply the effect of the reverse stock split (one-for-seven) in 2007 and the forward stock split (eight-for-one) in 2008.

Note 16 — Stock Warrants

During 2007, the Company issued warrants to purchase 2,521,656 shares, respectively, of common stock to the parties who helped secure financing. The exercise price was $0.20 per share.

In exchange for services performed by vendors who worked at a reduced rate, warrants were issued during to purchase 380,699 and 317,032 shares in 2008 and 2007, respectively, of common stock. The exercise prices range from $0.00875 to $0.20 per share.

During 2008, 1,552,936 warrants were exercised at a price of $.00875 per share.

The following table shows the various changes in warrants for the years December 31, 2008 and 2007.

December 31,	2008	2007
Warrants Outstanding, Beginning of Year	6,171,008	3,509,456
Exercised During the Year	(1,552,936)	(177,136)
Issued During the Year	380,699	2,838,688
Forfeited During the Year	—	—
Warrants Outstanding, End of Year	4,998,771	6,171,008

The outstanding warrants as of December 31, 2008 expire from August 10, 2010 to December 31, 2013. The weighted average remaining contractual term on the warrants is 2.7 years. The weighted average exercise price is $0.1401 per share.

During 2006, pursuant to a convertible note payable, a warrant was issued that would only be exercisable if the note holder converted their note along with any unpaid accrued interest. The exercise price if this warrant came into effect would be $0.35 per share and the warrant would have to be exercised by September 30, 2009. Excluding accrued interest, the conversion of the principal of the note and exercise of the resulting warrant would result in the issuance of up to 1,071,225 shares. This warrant is not included in the totals above.

Note 17 — Stock Option Plans

The Company has an Incentive Stock Option Plan (the "Plan") that allows for the granting of both Qualified and Non-Qualified Stock Options as defined under the Internal Revenue Code regulations. The total authorized number of shares under the plan is 45,714,286. For Non-Qualified Stock Options, the Company may grant options that provide for the issuance of Common Shares of $0.001 at prices below fair market value at the date of grant. For Qualified Options grants, the option issuance price may not be less than fair market value at the date of grant. The Plan gives the Board of Directors of the Company the ability to determine vesting periods for all options granted under the Plan, and allows option terms to be up to ten years from the original grant date. Employees' incentive stock options must vest at a minimum rate of 20% per year over a five year period, commencing on the date of grant. Most vest ratably over four years commencing on the date of the option grant. In the case of directors, such options are granted annually and they expire ten years after the date of their grant and vest ratably, on a monthly basis, over the next 12 months. Advisors or consultants can have vesting range from 100 percent of the option grants vesting immediately to ratably, on a monthly basis, over the next a period of up to 48 months.

The following table summarizes stock option activity for the three years ended December 31, 2008:

	Number of Shares	Weighted Average Exercise Price	Exercise Price Range
Outstanding at January 1, 2006	11,783,648	$ 0.02916	$ 0.0061 – $ 0.2334
Granted	1,601,800	$ 0.2318	$ 0.2275 – $ 0.2334
Exercised	(22,857)	$ 0.02275	$0.02275
Expired or Forfeited	—	—	$ —
Outstanding at December 31, 2006	13,362,591	$ 0.05266	$ 0.0061 – $ 0.2334
Granted	1,772,584	$ 0.2189	$ 0.2000 – $ 0.2334
Exercised	(402,483)	$ 0.01137	$ 0.0087 – $0.02889
Expired or Forfeited	(185,742)	$ 0.02889	$0.02889
Outstanding at December 31, 2007	14,546,950	$ 0.07254	$ 0.0061 – $ 0.2334
Granted	1,917,288	$ 0.1846	$ 0.15 – $ 0.20
Exercised	(2,450,888)	$ 0.00694	$0.0.6123 – $ 008750
Expired or Forfeited	(934,336)	$ 0.1949	$ 0.20 – $ 0.2334
Outstanding at December 31, 2008	13,079,014	$ 0.0914	$ 0.0061 – $ 0.2334

As of December 31, 2008, there were 9,582,619 options that were fully vested and exercisable at weighted average exercise price of $0.0594 per share. The weighted average remaining contractual term on the vested options is 5.7 years.

The unvested balance of 3,496,395 options as of December 31, 2008, vest ratably over less than the next 46 months.

VUZIX CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following tables summarizes stock option information at December 31, 2008:

Total Options Outstanding

Range of exercise price	Shares	Weighted average remaining life (yrs)	Weighted average exercise price
$0.0062 to $0.0087	2,995,192	3.58	$ 0.0076
$0.0227 to $0.0289	5,105,291	6.07	$ 0.0257
$0.1500 to $0.2000	2,644,152	9.66	$ 0.1889
$0.2100 to $0.2334	2,334,379	8.10	$ 0.2323
	13,079,014	6.59	$ 0.0914

Exercisable Options Outstanding

Range of exercise price	Shares	Weighted average remaining life (yrs)	Weighted average exercise price
$0.0062 to $0.0087	2,995,192	3.58	$ 0.0076
$0.0227 to $0.0289	4,653,140	5.98	$ 0.0255
$0.1500 to $0.2000	551,296	9.39	$ 0.1935
$0.2100 to $0.2334	1,382,991	7.90	$ 0.2322
	9,582,619	5.70	$ 0.0594

Unvested Options Outstanding

Range of exercise price	Shares	Weighted average remaining life (yrs)	Weighted average exercise price
$0.0062 to $0.0087	—	—	$ —
$0.0227 to $0.0289	452,151	7.00	$ 0.1350
$0.1500 to $0.2000	2,092,856	9.73	$ 0.1876
$0.2100 to $0.2334	951,388	8.41	$ 0.2324
	3,496,395	9.02	$ 0.1930

The weighted average fair value of options granted during 2008 was $0.182842 with an aggregate value of $192,632. The weighted average fair value of options granted during 2007 was $0.215918 with an aggregate total value of $224,020. The weighted average fair value of options granted during 2006 was $0.231794 with an aggregate total value of $246,214. There were no dividends in any of the periods.

The number of options for our securities remaining for future issuance (excluding options reflected above — 13,079,014 as of December 31, 2008) is 29,759,011.

Cash received from option exercises in 2008, 2007, and 2006, amounted to $16,696, $5,730, and $520, respectively. All of the shares issued out of common stock.

For the six month period ended June 30, 2009, new options to purchase a total of 2,335,940 shares were granted with an exercise price of $0.15 cents per share, all subject to vesting over four years. During the six-month period ended June 30, 2009, options to purchase a total of 110,400 shares were forfeited and no options were exercised.

With respect to any non-qualified stock options and incentive stock options that are exercised and held for less than one year, the Company recognizes a tax benefit upon exercise in an amount equal to the tax effect of the difference between the option price and the fair market value of the common stock on the exercise date.

Note 18 — Stock-based Compensation Expense

The table below summarizes the impact of outstanding stock options on the results of operations for the years ended December 31, 2008, 2007 and 2006 under the provisions of SFAS No. 123(R):

December 31,	2008	2007	2006
Stock-Based Compensation Expense:			
Stock Options	$180,298	$111,438	$18,418
Income Tax Benefit	—	—	—
Net Decrease in Net Income	$180,298	$111,438	$18,418
Decrease in Earnings Per Share:			
Basic and Diluted	$ 0.0008	$ 0.0006	$0.0001

The Black-Scholes-Merton option pricing model was used to estimate the fair value of share-based awards under SFAS No. 123(R) as well as for pro forma disclosures under SFAS No. 123. The Black-Scholes-Merton option pricing model incorporates various and highly subjective assumptions, including expected term and expected volatility. For valuation purposes, stock option awards were categorized into two groups, stock option grants to employees and stock option grants to members of the Board of Directors.

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 expected 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. Cash dividends have never been paid and are not anticipated to be paid in the foreseeable future. Therefore, the assumed expected dividend yield is zero.

The following table shows the detailed assumptions used to compute the fair value of stock options granted during 2008, 2007 and 2006:

December 31,	2008	2007	2006
Expected Term (Years)	6.25 years	6.25 years	6.25 years
Volatility	60.9%	63.7%	63.7%
Risk Free Interest Rate	4.39%	4.39%	4.49%

SFAS No. 123(R) requires pre-vesting option forfeitures at the time of grant to be estimated and periodically revised in subsequent periods if actual forfeitures differ from those estimates. Stock-based compensation expense is recorded only for those awards expected to vest using an estimated forfeiture rate based on historical pre-vesting forfeiture data.

Unrecognized stock-based compensation expense was approximately $360,612 as of December 31, 2008, relating to a total of 3,496,396 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 3.8 years.

Stock-based compensation expense for the six months ending June 30, 2009 and 2008 was $90,065 and $90,149, respectively.

VUZIX CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 19 — Stock Subscriptions Receivable

During the year ended December 31, 2002, the Company's Board of Directors authorized to make loans to certain senior employees to allow them to participate in a rights offering and purchase 32,537,135 shares of common stock at a price of $0.0085 per share. While the loans were initially due September, 2007, the due date was extended to December 2012. The loans bear interest at 6% and are shown as stock subscriptions receivable in the accompanying consolidated financial statements. In the interim period a stock subscription inclusive of gross interest to maturity totaling $94,181 were forgiven. During 2009 a stock subscription inclusive of gross interest to maturity totaling $94,181 was forgiven. An adjustment to subscription receivables of $94,181 was made along with a $81,046 non-cash wage expense and a reduction of $13,145 in Additional Paid-In Capital to reduce the unearned gross interest that was previously accrued.

Note 20 — Commitments

The Company leases office space under an operating lease expiring in December, 2008 requiring monthly payments of $4,200 plus insurance, taxes and common charges.

The Company leases office space under an operating lease expiring in May, 2009 requiring monthly payments of $3,819 plus insurance, taxes and common charges.

On June 1, 2007 the Company acquired an operating lease for additional office space. The lease expires on June 30, 2010 and requires monthly payments of $3,973 plus insurance, taxes and common charges.

Rent expense for the years ended December 31, 2008, 2007, and 2006 totaled $178,657, $161,410, and $95,539, respectively.

Future minimum payments required under operating lease obligations are as follows:

2009	2010	Total Minimum Lease Payments
$66,765	$23,835	$ 90,600

For the lease agreements described above, the Company is required to pay the pro rata share of the real property taxes and assessments, expenses and other charges associated with these facilities.

Note 21 — Employee Benefit Plans

The Company has a Section 401(k) Savings Plan which covers employees who meet certain age and length of service requirements. To date the plan is comprised of 100% employee deferrals.

Note 22 — Litigation

The Company is not subject to any legal proceedings or claims at the current time. The Company indemnifies its directors and officers who are, or were, serving at the Company's request in such capacities. The fair value of the indemnifications that the Company issued during 2008 was not material to the Company's financial position, results of operations or cash flows.

VUZIX CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 23 — Product Revenue

The following table represents the Company's total sales for 2008, 2007 and 2006 classified by product category:

December 31,	2008	2007	2006
Consumer Video Eyewear	$ 4,451,121	$ 3,282,755	$2,022,623
Defense Products	6,397,221	1,418,249	4,888,243
Engineering Services	1,548,703	5,445,375	2,627,442
Low Vision Products	92,839	—	—
Total	$ 12,489,884	$ 10,146,379	$9,538,308

The following table represents the Company's total sales for the three and six months ending June 30, 2008 and 2007 classified by product category:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Consumer Video Eyewear	$ 764,629	$ 516,214	$1,865,815	$1,192,859
Defense Products	1,179,146	2,442,817	2,633,300	3,300,428
Engineering Services	116,864	127,006	565,355	317,994
Low Vision Products	3,094	1,301	17,617	6,701
Total	$2,063,733	$3,087,338	$5,082,087	$4,807,982

Note 24 — Concentrations

For 2008, 2007, and 2006, one customer accounted for approximately 20%, 17% and 42% of sales, respectively and sales to the U.S. government accounted for approximately 12% 54%, and 27%, respectively.

Accounts receivable from the U.S. government accounted for 31% and 19% of accounts receivable at December 31, 2008 and 2007, respectively and the other one customer mentioned above represented 6% and 39% of accounts receivable at December 31, 2008 and 2007, respectively.

Note 25 — Related Party Transactions

During 2008, $2,472,824 and $827,307 of revenues and purchases, respectively were derived from a minority stockholder (less than 5%) of the Company who also represented $90,606 of the accounts receivable balance and $— nil of the accounts payable balance at December 31, 2008.

During 2007, $1,737,285 and $2,009,500 of revenues and purchases, respectively were derived from a minority stockholder (less than 5%) of the Company who also represented $1,145,472 of the accounts receivable balance and $1,493,956 of the accounts payable balance at December 31, 2007.

During 2006, $4,006,324 and $620,727 of revenues and purchases, respectively were derived from a minority stockholder (less than 5%) of the Company who also represented $359,068 of the accounts receivable balance and $164,510 of the accounts payable balance at December 31, 2006.

Included in long-term debt is a note payable to an officer of the Company. Interest expense related to the note payable amount to $16,737 for the years ended December 31, 2008 and 2007. Total accrued interest on the note payable was $100,449 as of December 31, 2008. See Note 11 for details.

Included in long-term debt are bridge loans payable and convertible notes payable to related parties, minority stockholders owning less than 1% of the Company. Interest expense related to these loans payable amounted to $48,717, $40,085, and $32,056 for the years ended December 31, 2008, 2007 and 2006, respectively.

The Company has accrued compensation owed to officers of the Company. Interest expense related to accrued compensation amounts to $35,608, $35,608 and $24,808 for the years ended December 31, 2008, 2007 and 2006, respectively. Total accrued interest on the accrued compensation was $154,753 as of December 31, 2008. See Note 10 for details.

Note 26 — Prior-Period Restatements

The accompanying consolidated financials for 2007 have been restated to correct errors recognized after their initial release. These changes include the correction of the warranty reserve of $73,064; a reduction of depreciation expense of $15,346; and the accrual of an income tax benefit from research and development tax credits of $130,130. The effect of these restatements is an overall decrease in the net loss in the amount of $72,412 for 2007. There was also a reclassification of expenses of $499,237 between the cost of sales and operating expense classifications for consistency across the periods. This had no effect on the reported net loss.

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Up to 50,000,000 Units
Minimum Offering of Cdn$6,000,000

PROSPECTUS

Until , 2009, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This requirement is in addition to the dealers' obligation to deliver a prospectus when acting as agents and with respect to their unsold allotments or subscriptions.

, 2009

Alternate page for Canadian Prospectus

Amended and restated preliminary base PREP prospectus amending and restating the amended and restated preliminary base PREP prospectus dated September 4, 2009

A copy of this preliminary prospectus has been filed with the securities regulatory authorities in each of the provinces of Canada other than Québec but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities. This prospectus has been filed under procedures in each of the provinces of Canada other than Québec that permit certain information about these securities to be determined after the prospectus has become final and that permit the omission of that information from this prospectus. The procedures require the delivery to purchasers of a supplemented PREP prospectus containing the omitted information within a specified period of time after agreeing to purchase any of these securities. All disclosure contained in a supplemented PREP prospectus that is not contained in the base PREP prospectus will be incorporated by reference into the base PREP prospectus as of the date of the supplemented PREP prospectus.

This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. Vuzix Corporation has filed a registration statement on Form S-1 with the United States Securities and Exchange Commission under the United States Securities Act of 1933, as amended, with respect to these securities. See "Plan of Distribution".

AMENDED AND RESTATED PRELIMINARY BASE PREP PROSPECTUS

Initial Public Offering October 16, 2009

VUZIX CORPORATION

A Maximum Offering of $12,500,000
A Minimum Offering of $6,000,000
Up to 50,000,000 Units

(each Unit consisting of one share of common stock and one-half of one common stock purchase warrant)

This prospectus qualifies the distribution (the "Offering") of a maximum of Cdn$12,500,000 worth of units (the "Units") in the capital of Vuzix Corporation ("Vuzix", the "Company", "us" or "we") (the "Maximum Offering") and a minimum of Cdn$6,000,000 worth of Units (the "Minimum Offering"), at a price of Cdn$ ● per Unit (the "Offering Price"). Each Unit is comprised of one share of our common stock, with a par value of US$0.001 per share (each, a "Share" and collectively, the "Shares") and one-half of one common stock purchase warrant (each whole warrant being a "Warrant"). The Warrants will be created and issued pursuant to the terms of a warrant indenture (the "Warrant Indenture") dated as of the closing date between us and Computershare Trust Company of Canada, as warrant agent thereunder. Each Warrant will entitle its holder to purchase one share of our common stock at a price per share equal to 150% of the Offering Price at any time for 36 months after the closing date of the Offering (the "Warrant Expiry Time"), provided that if at any time the market price of the shares of our common stock issuable exceeds 250% of the Offering Price, the Company shall have the right and option, exercisable at its sole discretion, to accelerate the Warrant Expiry Time. The Units are being offered concurrently in each of the provinces of Canada other than Québec pursuant to this prospectus and in the United States pursuant to a registration statement on Form S-1 (the "U.S. Prospectus") filed with the United States Securities and Exchange Commission. The full text of the U.S. Prospectus is included in and forms a part of this prospectus. We have engaged Canaccord Capital Corporation and Bolder Investment Partners, Ltd. (collectively, the "Agents") to act as our agents in connection with the sale of the Units on a best efforts basis. Subject to compliance with applicable laws, the Offering Price of the Units will be determined by negotiation between us and the Agents. In connection with the Offering, the Agents may over-allot or effect transactions which stabilize or maintain the market price of the shares at levels other than those which may otherwise exist in the open market. See "Plan of Distribution".

There is currently no market through which the Units or the Shares and Warrants comprising the Units may be sold and purchasers may not be able to resell the Shares or Warrants purchased under this prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities and the extent of issuer regulation. An investment in the Units is subject to a number of risks that should be considered by a prospective purchaser. Investors should carefully consider the risk factors described under "Risk Factors" in the U.S. Prospectus before purchasing the Units. We have applied to list the shares of our common stock (including the Shares) and Warrants on the TSX Venture Exchange (the "TSX-V"). Listing of the shares (including the Shares) and Warrants will be subject to us fulfilling all of the listing requirements of the TSX-V and, in the case of the Warrants, distribution to a minimum number of public security holders.

PRICE CDN$ ● PER UNIT

	Price to the Public[1]	Agents' Commissions[3],[4]	Net Proceeds to Vuzix[5]
Per Unit	Cdn$ ● [2]	Cdn$ ●	Cdn$ ●
Maximum Offering	Cdn$12,500,000	Cdn$1,000,000	Cdn$11,500,000
Minimum Offering	Cdn$6,000,000	Cdn$480,000	Cdn$5,520,000

Notes

(1) Based on negotiation with the Agents, the Company anticipates offering the Units at a price between Cdn$0.15 and Cdn$0.25.

(2) For the Company's purposes, Cdn$ ● of the Offering Price for each Unit will be allocated to each Share and Cdn$ ● of the Offering Price for each Unit will be allocated to each half Warrant (Cdn$ ● for each whole Warrant).

(3) We have retained the Agents to solicit subscriptions for the Units on a best efforts basis. As consideration for their services, the Agents will receive: (i) a commission equal to 8% of the gross proceeds of the Offering; (ii) options (the "Compensation Options") entitling the Agents to purchase that number of Shares and Warrants equal to 12.5% of the aggregate number of Shares and Warrants sold under the Offering, at the Offering Price per Share and Warrant, for a period of 12 months from the closing date; and (iii) a due diligence fee of Cdn$15,000. The Agents will also be reimbursed for their reasonable fees and expenses including the reasonable legal fees and disbursements of legal counsel to the Agents. This prospectus also qualifies the distribution of that number of Compensation Options entitling the Agents to acquire up to 10% of the Shares and Warrants sold under the Offering. The distribution of the balance of the Compensation Options (entitling the Agents to acquire up to 2.5% of the number of Shares and Warrants sold under the Offering) is not qualified under this prospectus and such securities will be issued to the Agents pursuant to exemptions from the prospectus and registration requirements of applicable securities legislation and will be subject to resale restrictions under applicable securities legislation.

(4) In consideration of certain fiscal advisory services rendered by the Agents to us pursuant to a fiscal advisory fee agreement between us and the Agents dated June 29, 2009 (the "Fiscal Advisory Fee Agreement"), we have agreed to issue to the Agents that number of shares of our common stock equal to, depending on the gross proceeds of the Offering, between 1.0% and 2.0% of the number of issued and outstanding shares of our common stock outstanding on the closing of the Offering. The distribution of these shares to the

(Continued on the next page)

Alternate page for Canadian Prospectus

(Continued from previous page)

Agents pursuant to the Fiscal Advisory Fee Agreement is not qualified by this prospectus. Such shares will be issued pursuant to exemptions from the prospectus and registration requirements of applicable securities legislation and will be subject to resale restrictions under applicable securities legislation. See "Material Contracts".

(5) Before deducting the expenses of the Offering estimated at Cdn$546,000 which, together with the Agents' commission and fees, will be paid by us out of the proceeds of the Offering.

As of the date hereof, we are an "IPO Venture Issuer" (defined under National Instrument 41-101 as an issuer that does not have any of its securities listed or quoted, has not applied to list or quote any of its securities, and does not intend to apply to list or quote any of its securities, on the Toronto Stock Exchange, a U.S. marketplace, or a marketplace outside of Canada and the United States of America other than the Alternative Investment Market of the London Stock Exchange or the PLUS markets operated by PLUS Markets Group plc.). See "Risk Factors" in the U.S. Prospectus. In connection with this Offering, the Agents may, subject to applicable laws, over-allot or effect transactions that stabilize or maintain the price of the Shares at levels other than those which otherwise might prevail on the open market. See "Plan of Distribution".

The following table summarizes the options granted by us to the Agents pursuant to the Offering:

Agents' Position	Maximum Number of Securities Held	Exercise Period	Exercise Price
Compensation Options(1)	12.5% of the number of Shares and Warrants sold under the Offering	12 months from the closing of the Offering	$ ● per Unit
Total Securities under Option	●		

Notes

(1) This prospectus also qualifies the distribution of that number of Compensation Options entitling the Agents to acquire up to 10% of the Shares and Warrants sold under the Offering. The distribution of the balance of the Compensation Options (entitling the Agents to acquire up to 2.5% of the number of Shares and Warrants sold under the Offering) is not qualified under this prospectus and such portion of the Compensation Options will be issued to the Agents pursuant to exemptions from the prospectus and registration requirements of applicable securities legislation and will be subject to resale restrictions under applicable securities legislation.

The Agents, as agents on behalf of the Company, conditionally offer the Units qualified under this prospectus, subject to prior sale, if, as and when issued by us and accepted by the Agents in accordance with the conditions contained in the agency agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on our behalf by Wildeboer Dellelce LLP as to certain matters of Canadian law and Boylan, Brown, Code, Vigdor & Wilson, LLP as to certain matters of U.S. law and on behalf of the Agents by McCullough O'Connor Irwin LLP as to certain matters of Canadian law and Dorsey & Whitney LLP as to certain matters of U.S. law. The Agents may offer the Units at prices lower than stated above. See "Plan of Distribution".

The financial statements included in this prospectus have not been prepared in accordance with Canadian generally accepted accounting principles and may not be comparable to financial statements of a Canadian issuer. See "Notice to Investors Regarding GAAP".

Pursuant to an escrow agreement among us, Canaccord Capital Corporation and JPMorgan Chase Bank, National Association, the funds received in payment for the Units sold in this Offering will be deposited into a non-interest bearing escrow account and held until the closing of the Offering. The Offering will close as soon as practicable after gross proceeds in respect of the Minimum Offering have been raised and deposited in the escrow account. If the Minimum Offering is not completed on or before 90 days after the issuance of a receipt for the final prospectus in respect of this Offering or such other time as may be consented to by persons who subscribed within that period, all subscription funds will be returned to subscribers without interest or deduction, unless the subscribers have otherwise instructed the Agents.

Subscriptions will be received subject to rejection or allotment in whole or in part, and the Agents reserve the right to close the subscription books at any time without notice. It is expected that the closing of the Offering will occur on or about ● , 2009 or such other date as the Company and the Agents may agree, which in any event shall not be later than ● , 2009. One or more book-entry only certificates representing the Shares and the Warrants, respectively, to be issued or sold in this Offering will be issued in registered form to The Canadian Depository for Securities Limited ("CDS"), or to its nominee, and will be deposited with CDS on the date of closing. A purchaser of the Units will receive only a customer confirmation from the registered dealer through which the Units are purchased.

Vuzix is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction. Although we have appointed Wildeboer Dellelce Corporate Services Inc. as our agent for service of process in Toronto, Ontario, it may not be possible for investors to enforce judgments obtained in Canada against us. See "Enforcement of Legal Rights".

Unless the context requires otherwise, references to the "Company", "Vuzix", "we", "us", or "our" refer to Vuzix Corporation and its subsidiary.

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CURRENCY AND EXCHANGE RATE DATA

We measure and report our financial results in U.S. dollars. The following table sets forth, for the periods indicated, the high, low, average and period-end noon buying rates of exchange for one U.S. dollar in Canadian dollars published by the Bank of Canada. Although obtained from sources believed to be reliable, the data is provided for informational purposes only, and the Bank of Canada does not guarantee the accuracy or completeness of the data. No representation is made that the U.S. dollar amounts have been, could have been or could be converted into Canadian dollars at the noon buying rate on such dates or any other dates.

	Year Ended December 31			Six Month Period Ended June 30	
	2008	2007	2006	2009	2008
Highest rate during period	$1.2969	$1.1853	$1.1726	$1.3066	$1.0369
Lowest rate during period	0.9719	0.9170	1.0990	1.0789	0.9711
Average rate during period	1.0660	1.0748	1.1342	1.2062	1.0070
Rate at the end of period	1.2246	0.9881	1.1653	1.1630	1.0186

On October 15, 2009, the noon buying rate of the Bank of Canada was U.S.$1.00 = Cdn$1.0303. **Unless otherwise indicated, all Canadian dollar values have been translated to U.S. dollars, or vice versa, using a convenience translation of U.S.$1.00 = Cdn$1.0424, the noon buying rate of the Bank of Canada on October 8, 2009. Unless otherwise specified, all references to "dollars", "U.S.$" or "$" in this prospectus are to United States dollars and references to "Cdn$" in this prospectus are to Canadian dollars.**

NOTICE TO INVESTORS REGARDING GAAP

The financial statements included in this prospectus have been prepared in accordance with U.S. generally accepted accounting principles which differ in certain material respects from Canadian generally accepted accounting principles. As we will become an "SEC issuer" (as such term is defined in National Instrument 52-107 of the Canadian Securities Administrators), we are not required to provide, and have not provided, a reconciliation of our financial statements to Canadian generally accepted accounting principles.

CONTINUOUS DISCLOSURE

Upon the filing of the final prospectus with the securities regulatory authorities in each of the provinces of Canada other than Québec we will become a reporting issuer under the securities laws of such jurisdictions that provide for a reporting issuer regime. Pursuant to the rules of the securities regulatory authorities of such jurisdictions, we (or, in the case of insider reporting, our insiders) will be required to satisfy the requirements

of the laws of such jurisdictions relating to continuous disclosure, proxy solicitation and insider reporting. These laws generally permit us to comply with certain informational requirements applicable in the United States instead of the continuous disclosure requirements normally applicable in such Canadian jurisdictions, provided that the relevant documents are filed with the securities regulatory authorities in the relevant Canadian jurisdictions and are provided to security holders in Canada to the extent and in the manner and within the time required by applicable U.S. requirements.

ENFORCEMENT OF LEGAL RIGHTS

We are incorporated under the laws of the State of Delaware in the United States of America and, accordingly, the rights and remedies generally available to shareholders under Canadian corporate statutes will not be available to investors who purchase under this prospectus. In addition, substantially all of our assets are located outside of Canada. Although we have appointed Wildeboer Dellelce Corporate Services Inc. as our agent for service of process in Ontario, it may not be possible for investors to collect from the Company judgments obtained in courts in Canada predicated on the civil liability provisions of applicable securities legislation in Canada.

In addition, a majority of our directors and officers and certain of the experts named in this prospectus reside outside of Canada. Furthermore, substantially all of the assets of such persons may also be located outside of Canada. It may not be possible for investors to effect service of process within Canada upon these directors and officers and experts referred to above. In addition, it may not be possible to enforce against the Company's directors and officers or certain of the experts named in this prospectus judgments obtained in Canadian courts predicated upon the civil liability provisions of applicable securities legislation in Canada.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable to a holder of Shares and Warrants:

- who is or is deemed to be a resident of Canada,
- who deals at arm's length with us,
- who is not affiliated with us,
- an interest in which would not be a "tax shelter investment" under the *Income Tax Act* (Canada) (the "Tax Act"),
- who is not a "financial institution" or other taxpayer to which the "mark to market" rules in the Tax Act apply,
- who holds all Shares and Warrants solely as capital property,
- who does not determine its "Canadian tax results" in a "functional currency", each as defined in the Tax Act, and
- for whom we are not at any material time a "foreign affiliate" for the purposes of the Tax Act,

at all material times for the purposes of the Tax Act.

A Share or a Warrant will generally be considered capital property of a holder unless the holder holds the Share or Warrant in the course of carrying on a business of buying and selling shares or warrants, or acquired the Shares or Warrants in a transaction or transactions considered to be an adventure in the nature of trade.

This summary is of a general nature only and is not exhaustive of all Canadian federal income tax considerations that may be relevant to a particular holder. It is not, and should not be construed as, legal or tax advice to any particular holder. Consequently each holder is urged to consult the holder's own tax advisers with respect to the legal and tax consequences applicable to the holder's circumstances.

This summary is based on the current provisions of the Tax Act and regulations thereunder in force as at the date hereof, all specific proposals to amend the Tax Act and regulations thereunder (the "Proposed Amendments"), publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof, and counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the "CRA"). This summary assumes that the Proposed Amendments will be enacted as currently proposed, and that there will be no other material change to any relevant law or administrative practice, although no assurance can be given in these respects.

Except as otherwise indicated, this summary does not take into account or anticipate any change in any applicable law, and does not take into account any provincial, territorial or foreign tax law nor any income or other tax treaty, any of which may give rise to considerations that differ significantly from the Canadian federal income tax considerations discussed herein.

Currency

For the purposes of the Tax Act, each amount relating to a share, including dividends, adjusted cost bases and proceeds of disposition, must be expressed in Canadian dollars. Any relevant amount denominated in U.S. dollars generally must be converted into Canadian dollars based on the prevailing U.S. dollar exchange rate at the relevant time. Holders may therefore realize additional income, gains or losses by virtue of changes in foreign currency exchange rates.

Acquisition of Shares and Warrants

The total Offering Price of a Unit to a holder must be allocated on a reasonable basis between the Share and the one-half of one Warrant to determine the cost of each for purposes of the Tax Act. For our purposes, we intend to allocate Cdn$ ● of the Offering Price of each Unit as consideration for the issue of each Share and Cdn$ ● of the issue price of each Unit for the issue of each one-half of one Warrant. Although we believe that this allocation is reasonable, it is not binding on the CRA or the holder. The holder's adjusted cost base of each Share comprising a part of each Unit will be determined by averaging the cost allocated to the Shares acquired pursuant to the offering with the adjusted cost base to the holder of all Shares owned by the holder immediately prior to such acquisition.

Exercise of Warrants

No gain or loss will be realized by a holder upon the exercise of a Warrant. When a Warrant is exercised, the holder's cost of the share of common stock acquired thereby will be the aggregate of the holder's adjusted cost base of such Warrant and the exercise price paid for the share of our common stock. The holder's adjusted cost base of the common stock so acquired will be determined by averaging such cost with the adjusted cost base to the holder of all shares of our common stock owned by the holder immediately prior to such acquisition.

Disposition and Expiry of Warrants

A disposition or deemed disposition by a holder of a Warrant (other than upon the exercise thereof) will generally give rise to a capital gain (or capital loss) equal to the amount by which the proceeds of disposition, net of any reasonable costs of disposition, are greater (or less) than such holder's adjusted cost base of the Warrants. In the event of the expiry of an unexercised Warrant, the holder will realize a capital loss equal to the holder's adjusted cost base of such Warrant. The tax treatment of capital gains and capital losses is discussed in greater detail below under the subheading "Capital Gains and Capital Losses".

Disposition of Shares

A holder who disposes or is deemed to dispose of a share of our common stock generally will realize a capital gain (or capital loss) equal to the amount by which the proceeds of disposition of the share, less reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such share to the holder. The tax treatment of capital gains and capital losses is discussed in greater detail below under the subheading "Capital Gains and Capital Losses".

Capital Gains and Capital Losses

The holder must include one half of any capital gain ("taxable capital gain") realized by a holder in income, and may deduct one half of any capital loss ("allowable capital loss") against taxable capital gains realized by a holder in the same year subject to the detailed rules in the Tax Act limiting the deduction of capital losses . The holder may deduct any excess of allowable capital losses against any net taxable capital gains realized in any of the three preceding taxation years or any subsequent taxation year, to the extent and under the circumstances permitted in the Tax Act. A holder resident in Canada who realizes a capital gain on the disposition of the Shares and pays United States tax as a result of the disposition may be eligible to claim a foreign tax credit or deduction under the Tax Act in respect of the United States tax payable to the extent and under the circumstances described in the Tax Act.

A holder that is a "Canadian-controlled private corporation" for the purposes of the Tax Act may be liable to pay an additional refundable tax of 6 2/3% on its "aggregate investment income" for the year, which will include any net taxable capital gains. Capital gains realized by a holder who is an individual (including most trusts) may be subject to alternative minimum tax.

Dividends on Shares

A holder will be required to include in income the gross amount of any dividend, including amounts deducted for any United States or other foreign withholding tax that may be levied on the dividend, that the holder receives, or is deemed to receive, on a share of common stock. The holder, if an individual (including a trust), will not be entitled to the gross-up and dividend tax credit rules normally applicable to dividends received by individuals from taxable Canadian corporations. If the holder is a corporation, the holder will not be entitled to deduct the amount of the dividend in computing its taxable income.

The holder will, subject to the detailed rules in the Tax Act governing foreign tax credits and deductions in respect of foreign taxes, generally be entitled to claim a foreign tax credit against federal Canadian income tax, or a deduction in computing income, or both a foreign tax credit and a deduction, in respect of any United States or other foreign withholding tax levied on any such dividend.

Holders are advised to consult their own tax advisers with respect to the availability of a foreign tax credit or deduction in respect of any dividend received or deemed to be received on a share of common stock.

A holder that is a "Canadian-controlled private corporation" for the purposes of the Tax Act may be liable to pay an additional refundable tax of 6 2/3% on its "aggregate investment income" for the year, which will include dividends on the common stock.

Foreign Property Information Reporting

The Tax Act imposes information reporting requirements on most Canadian residents who hold "specified foreign property" having an aggregate cost amount of Cdn$100,000 at any time in a taxation year or fiscal period. The Shares will be specified foreign property for these purposes. Each holder should consult the holder's own tax advisers to determine whether the holder is or may be subject to these reporting requirements.

Proposals Regarding Foreign Investment Entities

The Proposed Amendments contain provisions that relate to the taxation of certain interests held by Canadian residents in certain non-resident entities, applicable for taxation years commencing after 2006 (the "FIE Proposals"), notwithstanding that they have yet to be passed into law. However, the January 27, 2009 Federal Budget announced that the Government of Canada will review the existing FIE Proposals in light of submissions that it has received before proceeding with measures in the area.

Under the FIE Proposals, where a Canadian resident holds an interest such as a Share or rights to acquire shares (such as the Warrants), other than an "exempt interest", in a corporation that is a "foreign investment entity" (a "FIE") at the corporation's taxation year-end (as each of such terms is defined in the FIE Proposals), the Canadian resident generally will be required to include in computing income for the Canadian resident's taxation year that includes such year-end an amount in respect of such interest computed in one of three ways: (a) an imputed return

calculated as a prescribed percentage of the holder's "designated cost" of such interest; (b) in certain circumstances, the annual accrued increase or decrease in the fair market value of the holder's interest; or (c) in certain other limited circumstances, a proportionate share of the FIE's income or loss for the year calculated using Canadian tax rules as specified in the FIE Proposals. For most holders, the method described in (a) would be applicable.

We will not, however, be a FIE at the end of a taxation year provided that either: (a) at such time, the "carrying value" of all of our "investment property" will not be greater than one-half of the "carrying value" of all our property; or (b) throughout the relevant taxation year, our principal undertaking will have been the carrying on of a business that is not an "investment business". No assurances can be given that we will not be a FIE at the end of any of our taxation years or at any other times.

Even if we were a FIE for purposes of the FIE Proposals at the end of a taxation year, if the Shares or Warrants qualified as "exempt interests" for a particular holder at that time, the FIE Proposals would not apply in respect of such holder's Shares or Warrants, respectively. Generally, under the FIE Proposals, the Shares or Warrants would be an "exempt interest" to a particular Holder at the end of a particular taxation year if: (a) it was reasonable to conclude that the holder had no "tax avoidance motive" in respect of the Shares or Warrants, respectively, at that time; (b) throughout such period the Shares or Warrants, respectively, were an "arm's length interest" of the holder; and (c) throughout such period either (i) the Shares or Warrants, respectively, were listed on a designated stock exchange for the purposes of the Tax Act (which currently includes the TSX-V) or (ii) we were governed by and existed under the laws of a state of the United States and were a resident of the United States for the purposes of the Canada-United States Tax Convention (1980).

Holders should consult their own tax advisors regarding the FIE Proposals generally in respect of the Shares and Warrants, including the determination of whether or not they have a "tax avoidance motive" and whether or not the Shares or Warrants may at any time constitute an "exempt interest" to a holder.

If we were a FIE, the FIE Proposals include complex provisions to relieve against double taxation of dividend received and amounts included in income under the FIE Proposals. Holders should consult their own tax advisors in this regard.

AUDITORS, TRANSFER AGENTS & REGISTRARS

Our auditors are EFP Rotenberg, LLP, an independent registered public accounting firm, located in Rochester, New York.

The main transfer agent and registrar for our common stock is Computershare Trust Company, N.A. at its principal office located in Golden, Colorado. The co-transfer agent and registrar for our common stock is Computershare Investor Services, Inc. at its principal office located in Toronto, Ontario. The warrant agent for our Warrants is Computershare Trust Company of Canada at its principal office located in Toronto, Ontario.

PLAN OF DISTRIBUTION

We will enter into an agency agreement with the Agents with respect to the Units being offered by us (the "Agency Agreement"). For a description of the terms of the Agency Agreement, see "Underwriting" in the U.S. Prospectus. This section supplements the disclosure contained under "Underwriting" in the U.S. Prospectus.

Pursuant to the Agency Agreement, the Company has appointed the Agents as its exclusive agent to offer Units for sale to the public, on a best efforts basis, at a price of Cdn$ ● per Unit, for minimum gross proceeds of Cdn$6,000,000 and maximum gross proceeds of Cdn$12,500,000, subject to the terms and conditions in the Agency Agreement.

Provided the Minimum Offering has been subscribed for, it is expected that the closing will take place on or about ● , 2009, subject to postponement, as the Agents and the Company may agree, to a date not later than 90 days from the date of receipt for the (final) prospectus, or such later date as may be agreed to by the Company and the Agents with the consent of applicable securities regulatory authorities.

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The Agents must sell the number of Units that will result in us achieving the Minimum Offering (Cdn$6,000,000) if any are sold. The Agents are required to use their best efforts to sell the maximum number of Units offered (50,000,000 units). Pursuant to an escrow agreement among us, Canaccord Capital Corporation and JPMorgan Chase Bank, National Association, the funds received in payment for the Units sold in this Offering will be deposited into a non-interest bearing escrow account and held until the closing of the Offering. No funds shall be released to us until such a time as gross proceeds in respect of the Minimum Offering are raised and deposited in the escrow account. If the Minimum Offering is not completed on or before 90 days after the issuance of a receipt for the final prospectus in respect of this Offering or such other time as may be consented to by persons who subscribed within that period, all subscription funds will be returned to subscribers without interest or deduction, unless the subscribers have otherwise instructed the Agents.

The obligations of the Agents may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events.

The Offering is being made concurrently in the United States and each of the provinces of Canada other than Québec. The Units will be offered in the United States through those Agents who are registered to offer the Units for sale in the United States, either directly or indirectly through their U.S. broker-dealer affiliates, or such other registered dealers as may be designated by the Agents. The Units will be offered in each of the provinces of Canada other than Québec through those Agents who are registered to offer the Units for sale in such provinces. Subject to applicable law, the Agents may offer the Units outside of the United States and Canada.

Pursuant to policy statements of certain Canadian provincial securities commissions and the Universal Market Integrity Rules for Canadian Marketplaces, the Agents may not, throughout the period of distribution, bid for or purchase Shares or Warrants except in accordance with certain permitted transactions, including market stabilization and passive market making activities. Subject to the foregoing, the Agents may engage in stabilizing transactions, which involve making bids for, purchasing and selling the Shares or Warrants in the open market for the purpose of preventing or retarding a decline in the market price of our Shares or Warrants while the Offering is in progress. These stabilizing transactions may include making naked short sales of the Units or Shares, which involve the sale by the Agents of a greater number of the Shares or Warrants than are being sold in the Offering. A naked short position is more likely to be created if the Agents are concerned that there may be downward pressure on the price of the Shares or Warrants in the open market that could adversely affect investors who purchase in the Offering. To the extent that the Agents create a naked short position, they will purchase the Shares or Warrants in the open market to cover the position. These activities may have the effect of raising or maintaining the market price of the Shares or Warrants or preventing or retarding a decline in the market price of the Shares or Warrants, and, as a result, the price of the Shares or Warrants may be higher than the price that otherwise might exist in the open market. Such transactions, if commenced, may be discontinued at any time. The Agents may carry out these transactions on the TSX-V, in the over the counter market or otherwise.

A purchaser who acquires Shares or Warrants forming part of the Agents' over-allocation position acquires those Shares and Warrants under this prospectus, regardless of whether the over-allocation position is ultimately filled through secondary market purchases.

There is no current market through which the Shares or Warrants may be sold and purchasers may not be able to resell securities purchased under this prospectus. See "Risk Factors" in the U.S. Prospectus. We have applied to list the Shares and Warrants distributed under this prospectus on the TSX-V. The listing of the Company's shares (including the Shares) and Warrants is subject to the Corporation fulfilling all the listing requirements of the TSX-V and, in the case of the Warrants, distribution of the Warrants to a minimum number of public security holders.

As of the date hereof, we are an "IPO Venture Issuer" (defined under National Instrument 41-101 as an issuer that does not have any of its securities listed or quoted, has not applied to list or quote any of its securities, and does not intend to apply to list or quote any of its securities, on the Toronto Stock Exchange, a U.S. marketplace, or a marketplace outside of Canada and the United States of America other than the Alternative Investment Market of the London Stock Exchange or the PLUS markets operated by PLUS Markets Group plc.).

As consideration for their services, the Agents will receive: (i) a commission equal to 8% of the gross proceeds of the Offering; (ii) Compensation Options entitling the Agents to purchase that number of Shares and Warrants equal to 12.5% of the aggregate number of Shares and Warrants sold under the Offering, at the Offering Price per Share and Warrant, for a period of 12 months from the closing date; and (iii) a due diligence fee of Cdn$15,000. The Agents will also be reimbursed for their reasonable fees and expenses including the reasonable legal fees and disbursements of legal counsel to the Agents.

This prospectus also qualifies the distribution of that number of Compensation Options entitling the Agents to acquire up to 10% of the Shares and Warrants sold under the Offering. The distribution of the balance of the Compensation Options (entitling the Agents to acquire up to 2.5% of the number of Shares and Warrants sold under the Offering) is not qualified under this prospectus and such portion of the Compensation Options will be issued to the Agents pursuant to exemptions from the prospectus and registration requirements of applicable securities legislation and will be subject to resale restrictions under applicable securities legislation.

In consideration of certain fiscal advisory services rendered by the Agents to us pursuant to the Fiscal Advisory Fee Agreement, we have agreed to issue to the Agents that number of shares of our common stock equal to, depending on the gross proceeds of the Offering, between 1.0% and 2.0% of the number of issued and outstanding shares of our common stock outstanding on the closing of the Offering. The distribution of these shares of our common stock to the Agents pursuant to the Fiscal Advisory Fee Agreement is not qualified by this prospectus. Such shares will be issued pursuant to exemptions from the prospectus and registration requirements of applicable securities legislation and will be subject to resale restrictions under applicable securities legislation. See “Material Contracts”.

Warrants

The Warrants will be issued in registered form under and be governed by the terms of the Warrant Indenture. The Company will appoint the principal transfer office of Computershare Trust Company of Canada in Toronto, Ontario as the location at which the Warrants may be surrendered for exercise, transfer or exchange. The Warrant Indenture will, among other things, include provisions for the appropriate adjustment in the class, number and price of the shares of our common stock to be issued upon exercise of the Warrants upon the occurrence of certain events, including any subdivision, consolidation or reclassification of the shares of common stock, the payment of stock dividends and any amalgamation.

Each Warrant will entitle its holder to purchase one share of our common stock at a price per share equal to 150% of the Offering Price at any time until the Warrant Expiry Time, provided that if at any time the weighted average price of the shares of our common stock exceeds 250% of the Offering Price for 20 consecutive days, the Company shall have the right and option, exercisable at its sole discretion, to accelerate the Warrant Expiry Time by providing written notice to each registered holder of Warrants within five (5) business days and issuing a press release to the effect that the Warrants will expire at 5:00 p.m. (Toronto time) on the date specified in such notice and press release, provided that such date shall not be less than 30 days following the date of such notice and press release.

The shares of our common stock issuable upon exercise of the Warrants, when issued upon exercise of a Warrant, will be fully paid and non-assessable.

The Company is not required to issue fractional shares upon the exercise of a Warrant and the holder may not exercise one-half of one Warrant or any other fraction thereof. The holder of a Warrant will not possess any rights as a shareholder until the holder exercises the Warrant.

A Warrant may be exercised upon surrender of the Warrant certificate on or before the Warrant Expiry Time at the principal transfer office of Computershare Trust Company of Canada in Toronto, Ontario, with the exercise form found on the back of the Warrant certificate completed and executed as indicated, accompanied by payment of the exercise price (by money order, wire transfer, bank draft or certified cheque payable to the order of “Vuzix Corporation”) for the number of shares of our common stock with respect to which the Warrant is being exercised.

The foregoing discussion of material terms and provisions of the Warrants is qualified in its entirety by reference to the detailed provisions of the Warrant Indenture, a copy of which will be available on www.sedar.com and a copy of which may be obtained by contacting us.

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PRIOR SALES

In the past 12 months, shares of our common stock or securities convertible or exercisable for shares of our common stock have been issued by us as follows:

Date of Issuance	Nature of Securities Issued	Number of Shares of Common Stock Issued or Issuable	Issue Price Per Share of Common Stock	Aggregate Issue Price
May 2009	options(1)	2,335,940	$ 0.15	—
January 2009	shares of common stock(2)	2,000,000	$ 0.15	$ 300,000
January 2009	warrants(2)	1,000,000	$ 0.20	—
December 2008	warrants(3)	120,000	$ 0.01	—
December 2008	warrants(4)	11,583	$ 0.15	—
November 2008	options(5)	142,864	$ 0.15	—
November 2008	options(6)	446,424	$ 0.15	—
September 2008	shares of common stock(7)	444,447	$ 0.15	$ 66,667
August 2008	shares of common stock(8)	2,000,000	$ 0.15	$ 300,000
July 2008	options(9)	1,328,000	$ 0.20	—
July 2008	shares of common stock(10)	13,364,899	$ 0.15	$2,004,735
July 2008	warrants(11)	66,667	$ 0.01	—
June 2008	warrants(12)	157,504	$ 0.01	—
June 2008	warrants(13)	24,945	$ 0.20	—
June 2008	shares of common stock(14)	1,552,936	$ 0.01	$ 15,529

Notes:

(1) Options were granted under our stock option plan to 44 employees and are exercisable for ten years from the date of grant, subject to vesting over four years from the date of grant.

(2) Shares of our common stock, together with a warrant to purchase an additional 1,000,000 shares of our common stock, were issued to an individual investor and such warrants are exercisable for five years from the date of issue.

(3) Warrants were issued to a consultant in consideration for services and are exercisable for five years from the date of issuance.

(4) Warrants were issued to a consultant in consideration for services and are exercisable for five years from the date of issuance.

(5) Options were granted under our stock option plan to our external director as his annual retainer for serving and are exercisable for ten years from the date of grant, subject to vesting over 12 months from the date of grant.

(6) Options were issued to one consultant and two employees and are exercisable for ten years from the date of grant, subject to vesting over four years from the date of grant.

(7) Shares of our common stock were issued to a consultant for services.

(8) Shares of our common stock were issued to an individual investor.

(9) Options were issued under our 2007 stock option plan to seven employees and are exercisable for ten years from the date of the grant subject to vesting over four years from the date of grant.

(10) Shares of our common stock were issued to 46 individual and institutional investors.

(11) Warrants were issued to a consultant in consideration for services and are exercisable for five years from the date of issuance.

(12) Warrants were issued to a consultant in consideration for services and are exercisable for five years from the date of issuance.

(13) Warrants were issued to a consultant in consideration for services and are exercisable for five years from the date of issuance.

(14) Shares issued to 51 investors pursuant to the exercise of then outstanding warrants.

Except for the Shares and Warrants issuable pursuant to the Offering (including the issuance of shares of our common stock pursuant to the Fiscal Advisory Fee Agreement), and the shares of our common stock issuable pursuant to the conversion of outstanding convertible securities if, as and when converted by the holders thereof, as more particularly described in the U.S. Prospectus, we do not have a present intention to issue any other securities.

Alternate page for Canadian Prospectus

MATERIAL CONTRACTS

The only material contracts not in the ordinary course of business entered into since the beginning of the last financial year ending before the date of the prospectus, or before the beginning of such financial year where such contract is still in effect, or to be entered into, on or before the closing of the Offering, are as follows:

(a) Warrant Indenture. See "Plan of Distribution".

(b) Shareholders Agreement dated as of October 11, 2000 by and among Vuzix and Shareholders (as defined therein). See "Description of Capital Stock — Registration Rights" and Exhibit 10.9 in the U.S. Prospectus.

(c) Technology Purchase and Royalty Agreement dated as of December 23, 2005 between Vuzix and New Light Industries, Ltd. See "Description of Capital Stock — Registration Rights" and Exhibit 10.12 in the U.S. Prospectus.

(d) Demand Note in the original principal amount of $247,690.92 by Vuzix to the order of Paul J. Travers. See Exhibit 10.17 in the U.S. Prospectus.

(e) Loan Agreement dated as of October 2008 by and between Vuzix and Paul J. Travers. See Exhibit 10.18 in the U.S. Prospectus.

(f) Promissory Note dated as of October 2008 issued by Vuzix to the order of Paul J. Travers. See Exhibit 10.19 in the U.S. Prospectus.

(g) Fiscal Advisory Fee Agreement dated as of June 29, 2009 between Vuzix and the Agents. See Exhibit 10.21 in the U.S. Prospectus.

(h) Convertible Promissory Note dated September 19, 2006 in the original principal amount of $500,000 by Vuzix to Sally Hyde Burdick.

(i) Escrow Agreement dated as of October ●, 2009 among Vuzix, Canaccord Capital Corporation and JPMorgan Chase Bank, National Association.

In connection with the Offering, we will also enter into the Agency Agreement with the Agents referred to under "Plan of Distribution".

Copies of these agreements are attached as exhibits to the U.S. Prospectus, are available on www.sedar.com and also may be examined during normal business hours at the offices of our Canadian legal counsel, Wildeboer Dellelce LLP, located at Wildeboer Dellelce Place, Suite 800, 365 Bay Street, Toronto, Ontario, M5H 2V1, any time during the period of distribution of the Units under this prospectus.

ELIGIBILITY FOR INVESTMENT

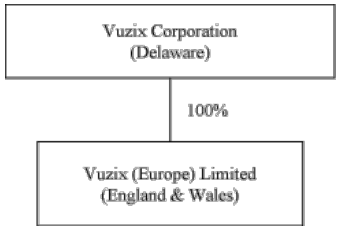
In the opinion of Wildeboer Dellelce LLP, our Canadian counsel, and McCullough O'Connor Irwin LLP, the Canadian counsel to the Agents, provided that the relevant provisions of the Tax Act and the regulations thereunder remain unamended at the time that the Shares and Warrants are listed on a designated stock exchange for purpose of the Tax Act (which currently includes the TSX-V), the Shares, if and when listed on a designated stock exchange, and the Warrants, if and when listed on a designated stock exchange, will be qualified investments under the Tax Act and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts. There can be no assurances that the Shares or Warrants will be listed on a designated stock exchange.

An investment in our Shares and Warrants will not generally be a "prohibited investment" for a particular trust governed by a tax-free savings account provided the holder does not have a "significant interest" in us. Generally, a holder will not have a significant interest in us unless the holder and/or persons not dealing at arm's length with the holder, owns directly or indirectly, 10% or more of the issued shares of any class of our capital stock or a corporation

related to us. Specific rules may also deem an individual to own shares of a partnership in which he or she is a member or a trust of which he or she is a beneficiary.

INTERCORPORATE RELATIONSHIPS

Set forth below is a chart reflecting our organizational structure, as well as the percentage ownership and jurisdiction of incorporation of our subsidiaries.



PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal advisor.

UNITED STATES PROSPECTUS

Attached is the U.S. Prospectus, which forms part of the Form S-1 registration statement filed with the United States Securities and Exchange Commission in connection with the U.S. offering. The U.S. Prospectus is deemed to form a part of this prospectus.

Alternate page for Canadian Prospectus

CERTIFICATE OF VUZIX CORPORATION

Dated October 16, 2009

This amended and restated prospectus, together with the documents and information incorporated by reference, will, as of the date of the supplemented prospectus providing the information permitted to be omitted from this prospectus, constitute, full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required under the securities legislation of each of the provinces of Canada other than Québec.

By: (Signed) Paul J. Travers
President and Chief Executive Officer

By: (Signed) Grant Russell
Chief Financial Officer, Treasurer and Secretary

On behalf of the Board of Directors of Vuzix Corporation

By: (Signed) William Lee
Director

Alternate page for Canadian Prospectus

CERTIFICATE OF THE AGENTS

Dated October 16, 2009

To the best of our knowledge, information and belief, this amended and restated prospectus, together with the documents and information incorporated by reference, will, as of the date of the supplemented prospectus providing the information permitted to be omitted from this prospectus, constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required under the securities legislation of each of the provinces of Canada other than Québec.

CANACCORD CAPITAL CORPORATION	**BOLDER INVESTMENT PARTNERS, LTD.**
By: (Signed) David Rentz	By: (Signed) Paul Woodward

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. ***Other Expenses of Issuance and Distribution.***

The following table sets forth all costs and expenses, other than underwriting discounts and commissions, payable by us in connection with the sale of the common stock being registered. All amounts shown are estimates except for the SEC registration fee, the FINRA filing fee, the Canadian securities regulators filing fees and the TSX-V filing fee.

	Amount to be Paid
SEC registration fee	$ 1,699
FINRA filing fee	$ 3,734
Canadian securities regulators filing fees	*
TSX-V filing fee	*
Blue sky qualification fees and expenses	*
Printing and engraving expenses	*
Legal fees and expenses	*
Accounting fees and expenses	*
Transfer agents and registrar fees and expenses	*
Miscellaneous expenses	*
Total	$ *

* To be provided by amendment.

Item 14. ***Indemnification of Directors and Officers.***

We are incorporated under the laws of the State of Delaware. Section 145 of the Delaware General Corporation Law provides that a Delaware corporation may indemnify any persons who are, or are threatened to be made, parties to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of such corporation), by reason of the fact that such person was an officer, director, employee or agents of such corporation, or is or was serving at the request of such person as an officer, director, employee or agents of another corporation or enterprise. The indemnity may include expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, provided that such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the corporation's best interests and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his or her conduct was illegal. A Delaware corporation may indemnify any persons who are, or are threatened to be made, a party to any threatened, pending or completed action or suit by or in the right of the corporation by reason of the fact that such person was a director, officer, employee or agents of such corporation, or is or was serving at the request of such corporation as a director, officer, employee or agents of another corporation or enterprise. The indemnity may include expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit, provided such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the corporation's best interests except that no indemnification is permitted without judicial approval if the officer or director is adjudged to be liable to the corporation. Where an officer or director is successful on the merits or otherwise in the defense of any action referred to above, the corporation must indemnify him or her against the expenses which such officer or director has actually and reasonably incurred.

Section 102(b)(7) of the Delaware General Corporation Law permits a corporation to provide in its certificate of incorporation that a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duties as a director, except for liability for any:

- transaction from which the director derives an improper personal benefit;
- act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- unlawful payment of dividends or redemption of shares; or
- breach of a director's duty of loyalty to the corporation or its stockholders.

Our certificate of incorporation provides that we shall indemnify each director and officer of the registrant, his heirs, executors and administrators, and may indemnify each employee and agents of the registrant, his heirs, executors, administrators and all other persons whom the registrant is authorized to indemnify under the provisions of the General Corporation Law of the State of Delaware, to the greatest extent permitted or provided by law (a) against all expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with any action, suit or proceeding, whether civil, criminal, administrative or investigative, or in connection with any appeal therein, or otherwise, and (b) against all expenses (including attorney's fees) actually and reasonably incurred by him in connection with the defense or settlement of any action or suit by or in the right of the registrant, or in connection with any appeal therein, or otherwise; and no provision of Article 9 of the registrant's certificate of incorporation is intended to be construed as limiting, prohibiting, denying or abrogating any of the general or specific powers or rights conferred by the General Corporation Law of the State of Delaware upon the registrant to furnish, or upon any court to award, such indemnification, or indemnification as otherwise authorized pursuant to the General Corporation Law of the State of Delaware or any other law now or hereafter in effect.

Our by-laws provide that all directors and officers of the registrant shall be entitled to be indemnified by us to the fullest extent permitted by the General Corporation Law of the State of Delaware. In addition, our by-laws provide that any person serving or having served at the request of the registrant as a director, trustee, officer, employee or agents of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan, shall be entitled to be indemnified by us to the fullest extent permitted by the General Corporation Law of the State of Delaware.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers, and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment of expenses incurred or paid by a director, officer or controlling person in a successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to the court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

Section 174 of the Delaware General Corporation Law provides, among other things, that a director who willfully or negligently approves of an unlawful payment of dividends or an unlawful stock purchase or redemption may be held liable for such actions. A director who was either absent when the unlawful actions were approved, or dissented at the time, may avoid liability by causing his or her dissent to such actions to be entered in the books containing minutes of the meetings of the board of directors at the time such action occurred or immediately after such absent director receives notice of the unlawful acts.

As permitted by the Delaware General Corporation Law, we have entered into indemnity agreements with each of our directors and executive officers that require us to indemnify such persons against any and all expenses (including attorneys' fees), witness fees, damages, judgments, fines, settlements and other amounts incurred (including expenses of a derivative action) in connection with any action, suit or proceeding, whether actual or threatened, to which any such person may be made a party by reason of the fact that such person is or was a director, an officer or an employee of Vuzix or any of its affiliated enterprises, provided that such person acted in good faith

and in a manner such person reasonably believed to be in or not opposed to our best interests and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful. The indemnification agreements also set forth certain procedures that will apply in the event of a claim for indemnification thereunder.

At present, there is no pending litigation or proceeding involving any of our directors or executive officers as to which indemnification is required or permitted, and we are not aware of any threatened litigation or proceeding that may result in a claim for indemnification.

We have an insurance policy covering our officers and directors with respect to certain liabilities, including liabilities arising under the Securities Act or otherwise.

Reference is made to the following documents filed as exhibits to this registration statement regarding relevant indemnification provisions described above and elsewhere herein:

Item 15. ***Recent Sales of Unregistered Securities.***

The following list sets forth information regarding all securities sold or issued by us in the three years preceding the date of this registration statement.

(1) In May 2009, we granted options under our 2007 stock option plan to purchase an aggregate of 2,335,940 shares of our common stock to 44 employees. Each option is exercisable at $0.15 per share for ten years from the date of grant, subject to vesting over four years from the date of grant. The exercise price of these options is subject to upward adjustment to the initial public offering price per share of our common stock if the closing of this offering occurs within 90 days of the grant date.

(2) In January 2009, we issued 2,000,000 shares of our common stock at a purchase price of $0.15, together with a warrant to purchase an additional 1,000,000 shares of shares of our common stock at an exercise purchase price of $0.20 per share for 5 years from the date of issue, to an individual investor for aggregate gross proceeds of $300,000 in cash.

(3) In December 2008, we issued warrants to purchase 120,000 shares of our common stock, exercisable at $0.01 per share for five years from the date of issuance, to a consultant in consideration for services.

(4) In December 2008, we issued warrants to purchase 11,583 shares of our common stock, exercisable at $0.15 per share for five years from the date of issuance, to a consultant in consideration for services.

(5) In November 2008, we granted an option under our 2007 stock option plan to purchase 142,864 shares of our common stock to our external director as his annual retainer. The option is exercisable at $0.15 per share for ten years from the date of issuance and vests over 12 months from the date of grant.

(6) In November 2008, we granted options under our 2007 stock option plan to purchase an aggregate of 446,424 shares of our common stock to one consultant and two employees. Each option is exercisable at $0.15 per share for ten years from the date of grant, subject to vesting over four years from the date of grant.

(7) In September 2008, we issued 444,447 shares of our common stock to a consultant in consideration for services.

(8) In July and August 2008, we issued 15,364,899 shares of our common stock to 46 individual and institutional investors for aggregate gross proceeds of $2,304,735 in cash.

(9) In July 2008, we issued warrants to purchase 66,667 shares of our common stock, exercisable at $0.01 per share for five years from the date of issuance, to a consultant in consideration for services.

(10) In July 2008, we issued 482,640 shares of our common stock to a consultant in consideration for services.

(11) In July 2008, we granted options under our 2007 stock option plan to purchase an aggregate of 1,328,000 shares of our common stock to seven employees. Each option is exercisable at $0.20 per share for ten years from the date of grant, subject to vesting over four years from the date of grant.

(12) In June 2008, we issued 1,552,936 shares of our common stock to 51 institutional and individual investors upon the exercise of warrants for aggregate gross proceeds of $15,529 in cash.

(13) In June 2008, we issued warrants to purchase 157,504 shares of our common stock, exercisable at $0.01 per share for five years from the date of issuance, to a consultant in consideration for services.

(14) In June 2008, we issued warrants to purchase 24,945 shares of our common stock, exercisable at $0.20 per share for five years from the date of issuance, to a consultant in consideration for services.

(15) In January 2008, we issued 2,450,888 shares of our common stock upon the exercise of options granted under our 2007 stock option plan for aggregate gross proceeds of $24,509 in cash.

(16) In December 2007, we issued warrants to purchase 45,000 shares of our common stock exercisable at $0.01 per share and warrants to acquire 37,720 shares of our common stock exercisable at $0.23336 per share to two consultants in consideration for services.

(17) In November 2007, we granted options under our 2007 stock option plan to purchase an aggregate of 140,000 shares of our common stock to an employee. Each option is exercisable at $0.20 per share for ten years from the date of grant, subject to vesting over four years from the date of grant.

(18) In November 2007, we granted an option under our 2007 stock option plan to purchase 142,864 shares of our common stock to our non-employee director. The option is exercisable at $0.20 per share for ten years from the date of issuance and vests over 12 months from the date of grant.

(19) In November 2007, we issued 134,280 shares of our common stock for aggregate gross proceeds of $1,343 in cash upon the exercise of the warrants issued in the transactions described in paragraph 37 below.

(20) In November 2007, we issued 500,000 shares of our common stock upon the conversion of outstanding indebtedness at the rate of $0.20 per share.

(21) In October 2007, we issued warrants to acquire 65,000 shares of our common stock, exercisable at $0.20 per share for two years from the date of issuance, to a consultant in consideration for services.

(22) In September 2007, we granted options under our 2007 stock option plan to purchase an aggregate of 644,000 shares of our common stock to six employees. Each option is exercisable at $0.20 per share for ten years from the date of grant, subject to vesting over four years from the date of grant.

(23) In July 2007, we issued 42,856 shares of our common stock to an individual investor for $429 in cash upon the exercise of warrants issued in the transaction described in paragraph 38 below.

(24) In June 2007, we issued warrants to acquire 38,568 shares of our common stock, exercisable at $0.0875 per share for five years from the date of issuance, to a consultant in consideration for services.

(25) In June 2007, we issued 20,891,600 shares of our common stock to 160 individual and institutional investors for aggregate gross proceeds of $4,178,320 in cash.

(26) In June 2007, in consideration of their services as placement agents in the private placement described in the immediately preceding paragraph, we issued to Canaccord Capital Corporation 2,233,872 shares of our common stock and to Canaccord Capital Corporation, IQ Ventures, Inc. and Lighthouse Financial Group, LLC warrants to purchase up to an aggregate of 2,456,656 shares of our common stock, exercisable at $1.60 per share for two years from the date of issuance. The exercise price of the warrants has been reduced to $0.20 per share as a result of anti-dilution adjustments in accordance with the terms thereof.

(27) In June 2007, we issued warrants to acquire 17,144 and 48,000 shares of our common stock, exercisable at $0.00875 per share for five years from the date of issuance, to two consultants in consideration for services.

(28) In June 2007, we issued warrants to acquire 168,320 shares of our common stock, exercisable at $0.20 per share for five years from the date of issuance, to a consultant in consideration for services.

(29) In May 2007, we issued 402,484 shares of our common stock upon the exercise of options granted under our 2007 stock option plan for aggregate gross proceeds of $3,539 in cash.

(30) In April 2007, we granted options under our 1997 stock option plan to purchase an aggregate of 274,286 shares of our common stock to two employees. Each option is exercisable at $0.2334 per share for ten years from the date of grant, subject to vesting over four years from the date of grant.

(31) In April 2007, we granted options under our 1997 stock option plan to purchase 571,432 shares of our common stock to a consultant. The option is exercisable at $0.2334 per share for five years from the date of grant, subject to vesting over two years from the date of grant.

(32) In December 2006, we granted options under our 1997 stock option plan to purchase an aggregate of 390,286 shares of our common stock to 12 employees. Each option is exercisable at $0.2334 per share for ten years from the date of grant, subject to vesting over four years from the date of grant.

(33) In November 2006, we granted options under our 1997 stock option plan to purchase an aggregate of 571,429 shares of our common stock to three employees. Each option is exercisable at $0.2334 per share for ten years from the date of grant, subject to vesting over four years from the date of grant.

(34) In November 2006, we granted an option under our 1997 stock option plan to purchase 142,864 shares of our common stock to our external director as his annual retainer, The option is exercisable at $0.2334 per share for ten years from the date of issuance and vests over 12 months from the date of grant.

(35) In September 2006, we issued 22,857 shares of our common stock upon the exercise of options granted under our 1997 stock option plan for aggregate gross proceeds of $229 in cash.

(36) In September 2006, in consideration of a loan of $500,000, we issued to the lender a warrant exercisable upon conversion of the promissory note issued in evidence of the loan to purchase up to that number of shares of our common stock equal to the principal amount of and accrued interest on the promissory note then converted divided by 0.5334, exercisable at $0.35 per share for three years from the date of the issue of the promissory note. As of the date of this prospectus, the promissory note has not been converted. Interest on the promissory note accrued at an initial annual rate of 10% but increased to 18% as of February 1, 2009.

(37) In September 2006, we issued 10,000 shares of our Series C Preferred Stock and a warrant to purchase 91,432 shares of our common stock, exercisable at $0.00875 per share for approximately three years from the date of issuance, to one individual investor for aggregate gross proceeds of $100,000 in cash.

(38) In September 2006, in consideration of loans in the aggregate amount of $200,000, we issued to the lenders warrants to purchase up to 85,712 shares of our common stock, exercisable at $0.00875 per share for five years from the date of issuance.

(39) In August 2006, we granted an employee an option under our 1997 stock option plan to purchase 142,857 shares of our common stock, exercisable at $0.2275 per share for ten years from the date of grant, subject to vesting over four years from the date of grant.

The offers, sales and issuances of the securities described in paragraphs 1, 5, 6, 17, 18, 22 and 30 through 34 above were deemed to be exempt from registration under the Securities Act in reliance on Rule 701 because the transactions were under compensatory benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of such securities were our employees, directors or bona fide consultants and received the securities under our stock option plan. Appropriate legends were affixed to the securities issued in these transactions. Each of the recipients of securities in these transactions had adequate access, through employment, business or other relationships, to information about us.

The offers, sales and issuances of the securities described all the other paragraphs above were deemed to be exempt from registration under the Securities Act in reliance on Rule 506 of Regulation D because the issuance of securities to the accredited investors did not involve a public offering. The recipients of securities in each of these transactions acquired the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the securities issued in these transactions. Each of the recipients of securities in these transactions was an accredited investor under Rule 501 of Regulation D.

Item 16. ***Exhibits and Financial Statement Schedules.***

(a) Exhibits.

A list of exhibits filed with this registration statement on Form S-1 is set forth in the Exhibit Index and is incorporated in this Item 16(a) by reference.

(b) Financial Statement Schedules.

No financial statement schedules are provided because the information called for is not required or is shown either in the financial statements or the notes thereto.

Item 17. ***Undertakings.***

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) (§ 230.424(b) of this chapter) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities the undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424 (§ 230.424 of this chapter);

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(5) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A (§230.430A of this chapter), shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. *Provided, however,* that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

The undersigned registrant hereby undertakes to provide to the agents at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the agents to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this Amendment No. 3 to Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Rochester, State of New York, on this 16th day of October, 2009.

VUZIX CORPORATION

By: /s/ Paul J. Travers
Paul J. Travers
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 3 to Registration Statement on Form S-1 has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Paul J. Travers Paul J. Travers	President, Chief Executive Officer and Director *(Principal Executive Officer)*	October 16, 2009
/s/ Grant Russell Grant Russell	Chief Financial Officer, Secretary and Treasurer *(Principal Financial and Accounting Officer)*	October 16, 2009
/s/ William Lee William Lee	Director	October 16, 2009

Index to Exhibits

1.1*	Form of Agency Agreement
3.1(1)	Certificate of Incorporation currently in effect
3.2	Amended and Restated Certificate of Incorporation to be effective immediately following the closing of the offering
3.3(1)	Bylaws currently in effect
3.4	Amended and Restated Bylaws to be effective immediately following the closing of the offering
4.1*	Specimen certificate evidencing shares of common stock
4.2*	Specimen common stock purchase warrant
4.3*	Form of Warrant Indenture between the registrant and Computershare Trust Company of Canada Certain instruments defining the rights of the holders of long-term debt of the registrant, none of which authorize a total amount of indebtedness in excess of 10% of the total assets of the registrant and its subsidiary on a consolidated basis, have not been filed as exhibits. The registrant hereby agrees to furnish a copy of any of these agreements to the Commission upon request
5.1	Opinion of Boylan, Brown, Code, Vigdor & Wilson, LLP
10.1(1)+	2007 Amended and Restated Stock Option Plan
10.2(1)+	2009 Stock Option Plan
10.3+	Form of Option Agreement under 2009 Stock Plan
10.4(1)+	Form of Indemnification Agreement by and between the registrant and each director and executive officer
10.5(1)+	Employment Agreement dated as of August 1, 2007 by and between the registrant and Paul J. Travers
10.6(1)+	Employment Agreement dated as of August 1, 2007 by and between the registrant and Grant Russell
10.7(1)	Shareholders Agreement dated as of October 11, 2000 by and among the registrant and Shareholders (as defined therein)
10.81(1)	Registration Rights Agreement dated as of October 11, 2000 by and among the registrant and the Investors (as defined therein)
10.9(1)	Registration Rights Agreement dated as of June 2005 by and among the registrant and the Investors (as defined therein)
10.10†	Technology Purchase and Royalty Agreement dated as of December 23, 2005 between the registrant and New Light Industries, Ltd.
10.11(1)	Warrant to purchase common stock dated as of December 23, 2005 issued by the registrant to New Light Industries, Ltd.
10.12(1)	Rights Agreement dated as of December 23, 2005 by and between the registrant and New Light Industries, Ltd.
10.13(1)	Agency Agreement dated as of June 29, 2007 by and between the registrant and Canaccord Capital Corporation
10.14(1)	Form of warrant to purchase common stock issued by the registrant pursuant to the Agency Agreement dated as of June 29, 2007 by and between the registrant and Canaccord Capital Corporation
10.15(1)	Demand Note in the original principal amount of $247,690.92 by the registrant to the order of Paul J. Travers
10.16(1)	Loan Agreement dated as of October 2008 by and between the registrant and Paul J. Travers
10.17	Promissory Note dated as of October 2008 by the registrant to the order of Paul J. Travers
10.18(1)	Fiscal Advisory Fee Agreement dated as of June 29, 2009 by and between the registrant and Canaccord Capital Corporation and Bolder Investment Partners, Ltd.
10.19†	Distribution and Manufacturing Agreement dated August 27, 2009 between the registrant and YuView Holdings Ltd.
10.20	Convertible Promissory Note dated September 19, 2006 in the original principal amount of $500,000 by the registrant to Sally Hyde Burdick

10.21*	Escrow Agreement by and among the registrant, Canaccord Capital Corporation and ● , as escrow agent
16.1	Letter dated October 12, 2009 from EFP Rotenberg, LLP pursuant to Item 304 of Regulation S-K
23.1	Consent of EFP Rotenberg, LLP, independent registered public accounting firm
23.2	Consent of Davie Kaplan, CPA , P.C., independent registered public accounting firm
23.3*	Consent of Boylan, Brown, Code, Vigdor & Wilson, LLP (included in Exhibit 5.1)
24.1(1)	Power of Attorney (included on signature page)
99.1(2)	Consent of Frank Zammataro pursuant to Rule 438
99.2(2)	Consent of Kathryn Sayko pursuant to Rule 438
99.3(2)	Consent of Bernard Perrine pursuant to Rule 438

(1) Previously filed as exhibit to the Registration Statement on Form S-1 filed on July 2, 2009

(2) Previously filed as exhibit to Amendment No. 2 to the Registration Statement on Form S-1 filed on September 4, 2009

* To be filed by amendment

\+ Management contract or compensation plan or arrangement

† Confidential treatment requested as to certain portions

AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
VUZIX CORPORATION

The undersigned, being the Chief Executive Officer and President of Vuzix Corporation, a Delaware corporation (the "Corporation"), does hereby certify that:

1. The original certificate of incorporation of the Corporation was filed with the office of the Secretary of State of the State of Delaware on September 16, 1997.

2. This certificate was duly adopted in accordance with the Section 242 and 245 the Delaware General Corporation Law.

3. The certificate of incorporation of the Corporation is hereby amended and restated to read in its entirety as follows:

ARTICLE 1. The name of the corporation is Vuzix Corporation (the "Corporation").

ARTICLE 2. The address of the Corporation's registered office in the State of Delaware is 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808. The name of the Corporation's registered agent at such address is Corporation Service Company.

ARTICLE 3. The purpose of the Corporation shall be to engage in any lawful act or activity for which corporations may be organized and incorporated under the Delaware General Corporation Law.

ARTICLE 4. The total number of shares of all classes of which the Corporation shall have authority to issue shall be 705,000,000 shares, consisting of (i) 700,000,000 shares of common stock, par value $0.001 per share ("Common Stock"), and (ii) 5,000,000 shares of preferred stock, par value $0.001 per share ("Preferred Stock").

A. COMMON STOCK

The following provisions of this Part A of this Article 4 constitute a statement of the powers, designations, preferences and relative participating, optional or other special rights and privileges, and the qualifications, limitations and restrictions of and relating to the Common Stock.

(1) The Common Stock is junior to the Preferred Stock and is subject to all the powers, rights, privileges, preferences and priorities that may be fixed with respect to any shares of Preferred Stock.

(2) Except as otherwise provided by law or this Certificate of Incorporation each holder of the Common Stock is entitled to one vote for each share of stock held by him of record on the books of the Corporation for the election of directors and on all matters submitted for a vote of stockholders of the Corporation. The number of authorized shares of Common Stock

may be increased or decreased (but not below the number of shares of Common Stock then outstanding) by the affirmative vote of the holders of a majority of the Common Stock and Preferred Stock entitled to vote, voting together as a single class.

(3) Each share of Common Stock is entitled to participate equally in any dividends that may be declared by the Board of Directors and, subject to the rights of the Preferred Stock, in any other distributions made by the Corporation.

B. PREFERRED STOCK

The following provisions of this Part B of this Article 4 constitute a statement of the powers, designations, preferences and relative participating, optional or other special rights and privileges, and the qualifications, limitations and restrictions of and relating to the Preferred Stock**.**

(1) Of the 5,000,000 authorized shares of Preferred Stock, (a) 500,000 shares shall be designated as Series C 6% Convertible Preferred Stock ("Series C Preferred Stock"), having the powers, designations, preferences and relative participating, optional or other special rights and privileges, and the qualifications, limitations and restrictions set forth in Paragraph (3) of this Part B of this Article 4 and (b) 4,500,000 shares shall be undesignated.

(2) The undesignated Preferred Stock may be issued from time to time in one or more series, the shares of each series to have such voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as are stated and expressed herein or in the resolution or resolutions providing for the issue of such series, adopted by the Board of Directors as hereinafter provided. Authority is hereby expressly granted to the Board of Directors, subject to the provisions of this Article 4 and to the limitations prescribed by the Delaware General Corporation Law, to authorize the issue of one or more series of Preferred Stock and with respect to each such series to fix by resolution or resolutions providing for the issue of such series the voting powers, full or limited, if any, of the shares of such series and the designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof. The authority of the Board of Directors with respect to each series shall include, but not be limited to, the determination or fixing of the following: (i) the designation of such series; (ii) the dividend rate of such series, the conditions and dates upon which such dividends shall be payable, the relation which such dividends shall bear to the dividends payable on any other class or classes of stock or any other series of any class of stock of the Corporation, and whether such dividends shall be cumulative or non-cumulative; (iii) whether the shares of such series shall be subject to redemption by the Corporation and, if made subject to such redemption, the times, prices and other terms and conditions of such redemption; (iv) the terms and amount of any sinking fund provided for the purchase or redemption of the shares of such series; (v) whether or not the shares of such series shall be convertible into or exchangeable for shares of any other class or classes of any stock or any other series of any class of stock of the Corporation, and, if provision is made for conversion or exchange, the times, prices, rates, adjustments, and other terms and conditions of such conversion or exchanges; (vi) the extent, if any, to which the holders of shares of such series shall be entitled to vote with respect to the election of directors or otherwise; (vii) the restrictions, if any, on the issue or

reissue of any additional Preferred Stock; and (viii) the rights of the holders of the shares of such series upon the dissolution of, or upon the distribution of assets of, the Corporation.

(3) The powers, designations, preferences and relative participating, optional or other special rights and privileges, and the qualifications, limitations and restrictions of and relating to the Series C 6% Convertible Preferred Stock Preferred Stock are as follows:

(A) Voting Privileges.

(a) General. Each holder of Series C Preferred Stock shall have that number of votes on all matters submitted to the stockholders that is equal to the number of shares of Common Stock into which such holder's shares of Series C Preferred Stock are then convertible, as hereinafter provided. Except as otherwise provided herein, and except as otherwise required by agreement or law, the shares of Series C Preferred Stock and the shares of Common Stock shall vote as a single class on all matters submitted to the stockholders.

(b) No Cumulative Voting. No holder of shares of capital stock of the Corporation shall have any cumulative voting rights.

(B) Dividends.

The holders of outstanding Series C Preferred Stock shall be entitled to receive in any fiscal year, when, prior and in preference to any declaration or payment of any dividend (payable other than in Common Stock), on the Common Stock of the Corporation (but subject to the rights of the Series A Preferred Stock and the Series B Preferred Stock, if any), dividends in cash at the rate of $0.60 per share of Series C Preferred Stock per annum (as adjusted for any stock splits, stock dividends, recapitalizations and the like). Such dividend or distribution may be payable annually or otherwise as the Board of Directors may from time to time determine. Dividends or distributions (other than dividends payable solely in shares of Common Stock) may be paid upon shares of Common Stock in any fiscal year of the Corporation only if dividends shall have been paid on or declared and set apart for all shares of Series A Preferred Stock and Series B Preferred Stock for such year. No further dividends shall be paid to holders of shares of Series C Preferred Stock in excess of such annual rate in any fiscal year unless at the same time equivalent dividends are paid to holders of shares of Common Stock; provided that holders of shares of Series C Preferred Stock shall participate pro rata (on an as-if-converted basis) in any dividends paid on Common Stock, subject to any rights of the Series A Preferred stock and the Series B Preferred Stock. The right to receive such dividends on shares of Series C Stock shall be cumulative, but no undeclared or unpaid dividend shall bear or accrue interest.

Dividends on shares of capital stock of the Corporation shall be payable only out of funds legally available therefor.

(C) Other Terms of the Preferred Stock.

(a) Liquidation Preference.

(i) In the event of an involuntary or voluntary liquidation, dissolution

or winding up of the Corporation at any time, subject to the rights of the holders of the Series A Preferred Stock and the Series B Preferred Stock, the holders of shares of Series C Preferred Stock shall be entitled to receive out of the assets of the Corporation an amount equal to the sum of $10.00 per share (appropriately adjusted to reflect stock splits, stock dividends, reorganizations, consolidations and similar changes hereafter effected), respectively, plus unpaid dividends thereon, if any (the "Liquidation Preference"). In the event of either an involuntary or a voluntary liquidation, dissolution or winding up of the Corporation, payment of the Liquidation Preference to the holders of shares of Series C Preferred Stock shall be made prior and in preference to any payment or other distribution of assets to the holders of the Common Stock or any other class of shares of the Corporation ranking junior to the Series C Preferred Stock with respect to payment upon dissolution or liquidation of the Corporation.

(ii) Upon completion of the distribution required by subsection (a)(i) of this Article (C), the holders of the Series C Preferred Stock shall participate in the distribution of all of the remaining assets of this Corporation available for distribution to stockholders as if such shares of Series C Preferred Stock had been converted into Common Stock at the conversion rate then in effect.

(iii) For purposes of this Section, a liquidation, dissolution or winding up of the Corporation shall be deemed to be occasioned by, or to include (unless the holders of at least sixty-seven percent (67%) of the Series C Preferred Stock then outstanding, voting as a single class on an as-converted basis and not as separate series, shall determine otherwise), (A) the acquisition of the Corporation by another entity by means of any transaction or series of related transactions (including, without limitation, any reorganization, merger or consolidation) that results in the transfer of fifty percent (50%) or more of the outstanding voting power of the Corporation; or (B) a sale of all or substantially all of the assets of the Corporation. If the holders of Preferred Stock fail to give the Corporation notice of their determination that such transactions shall not be deemed a liquidation, dissolution or winding up of the Corporation two (2) days prior to the effective date of any such transaction, the provisions of subparagraph (b)(7) below hereof shall apply. The Corporation shall give each holder of record of Series C Preferred Stock written notice of such impending transaction not later than twenty (20) days prior to the stockholders' meeting of the Corporation called to approve such transaction, or twenty (20) days prior to the closing of such transaction, whichever is earlier, and shall also notify such holders in writing of the final approval of such transaction. The first of such notices shall describe the material terms and conditions of the transaction and of this subparagraph (a) (including, without limiting the generality of the foregoing, a description of the value of the consideration, if any, being offered to the holders of the Series C Preferred Stock in the transaction and the amount to which such holders would be entitled if such transaction were (as described above) to be deemed to be a liquidation, dissolution or winding up of the Corporation), and the Corporation shall thereafter give such holders prompt notice of any material changes to such terms and conditions. The transaction shall in no event take place sooner than twenty (20) days after the mailing by the Corporation of the first notice provided for herein or sooner than ten (10) days after the mailing by the Corporation of any notice of material changes provided for herein; provided, however, that such periods may be reduced upon the written consent of the holders of sixty-seven percent (67%) of the Series C Preferred Stock.

(iv) In any of such events, if the consideration received by the Corporation is other than cash, its value will be deemed its fair market value. Any securities shall be valued as follows:

A. Securities not subject to investment letter or other similar restrictions on free marketability covered by (B) below:

(1) If traded on a securities exchange or through the Nasdaq National Market, the value shall be deemed to be the average of the closing prices of the securities on such exchange or system over the thirty (30) day period ending three (3) days prior to the closing;

(2) If actively traded over-the-counter, the value shall be deemed to be the average of the closing bid or sale prices (whichever is applicable) over the thirty (30) day period ending three (3) days prior to the closing; and

(3) If there is no active public market, the value shall be the fair market value thereof, as determined in good faith by the Board of Directors of the Corporation.

B. The method of valuation of securities subject to investment letter or other restrictions on free marketability (other than restrictions arising solely by virtue of a stockholder's status as an affiliate or former affiliate) shall be to make an appropriate discount from the market value determined as above in (A) (1), (2) or (3) to reflect the approximate fair market value thereof, as mutually determined by the Corporation and the holders of at least a majority of the voting power of all then outstanding shares of such Preferred Stock.

(v) In the event the requirements of this subsection 4(C)(a) are not complied with, this Corporation shall forthwith either:

A. cause such closing to be postponed until such time as the requirements of this Section 2 have been complied with; or

B. cancel such transaction, in which event the rights, preferences and privileges of the holders of the Series C Preferred Stock shall revert to and be the same as such rights, preferences and privileges existing immediately prior to the date of the first notice referred to in subsection E(a)(iii) hereof.

(vi) Nothing hereinabove set forth shall affect in any way the right of each holder of shares of Series C Preferred Stock to convert such shares at any time and from time to time in accordance with subparagraph (b) below.

(b) Conversion Right. At the option of the holders thereof, each share of Series C Preferred Stock shall be convertible, at the office of the Corporation (or at such other office or offices, if any, as the Board of Directors may designate), into such number of fully paid and nonassessable shares (calculated as to each conversion to the nearest 1/100th of a share) of Common Stock of the Corporation as is determined by dividing, $10.00 (the "Original Issue

Price") by the Conversion Price applicable to such share determined as hereafter provided in effect on the date the certificate is surrendered for conversion. The initial Conversion Price per share for shares of Series C Preferred Stock shall be $0.3333 per share of Common Stock; provided, however, that the Conversion Price for the Series C Preferred Stock shall be subject to adjustment as hereinafter provided. The following provisions shall govern such right of conversion:

(i) In order to convert shares of Series C Preferred Stock into shares of Common Stock of the Corporation, the holder thereof shall surrender at any office hereinabove mentioned the certificate or certificates therefor, duly endorsed to the Corporation or in blank, and give written notice to the Corporation at such office that such holder elects to convert such shares. Shares of Series C Preferred Stock shall be deemed to have been converted immediately prior to the close of business on the day of the surrender of such shares for conversion as herein provided, and the person entitled to receive the shares of Common Stock of the Corporation issuable upon such conversion shall be treated for all purposes as the record holder of such shares of Common Stock at such time. As promptly as practicable on or after the conversion date, the Corporation shall issue and deliver or cause to be issued and delivered at such office a certificate or certificates for the number of shares of Common Stock of the Corporation issuable upon such conversion.

(ii) Excluding (a) options to purchase shares of Common Stock and the issuance of awards of Common Stock granted to employees, directors and consultants of the Corporation pursuant to key employee and consultant benefit plans adopted by the Corporation and except for shares of Common Stock issued upon the exercise of such options granted pursuant to such plans, (b) issuances of shares of Common Stock or warrants for the purchase of shares of Common Stock approved by the Board of Directors of the Corporation in connection with equipment lease or bank financing transactions, (c) issuances of shares of Common Stock on conversion of shares of the Series A Preferred Stock, shares of the Series B Preferred Stock or shares of the Series C Preferred Stock, (d) issuances of shares in connection with a firm commitment underwritten public offering, (e) dividends or distributions on Preferred Stock and (g) issuances of shares in connection with business combinations or corporate partnering agreements approved by the Corporation's Board of Directors, if on or before June 30, 2006 the Corporation shall issue or sell (in one or more transactions, whether or not related), shares of its Common Stock (or Convertible Securities, rights options of warrants convertible into or exercisable for shares of its Common Stock (except such as are excluded pursuant to the provisos of the following Subparagraph (a))) resulting in aggregate gross proceeds to the Corporation of $1,000,000 or more, for an average consideration per share less than the Initial Conversion Price per share, as adjusted pursuant to Subparagraphs (E)(b)(3) and (E)(b)(4), then the Conversion Price of the Series C Preferred Stock shall be reduced to the average Price per Share of all shares of Common Stock so sold. The Average Price per Share shall mean the Total Consideration Received for such Shares, divided by the Total Consideration received for such shares (each determined in accordance with the further provisions of this Subparagraph (C)(b)(ii), calculated to the nearest cent, as follows:

(A) In the case of the grant (whether directly or by assumption in a merger or otherwise) of any rights to subscribe for or to purchase, or any options for the

purchase of, (i) Common Stock or (ii) any obligations or any shares of stock of the Corporation which are convertible into, or exchangeable for, Common Stock (any of such obligations or shares of stock being hereinafter called "Convertible Securities") whether or not such rights or options or the right to convert or exchange any such Convertible Securities are immediately exercisable, (x) the "Number of Shares" of Common Stock that are issued by the Corporation shall be deemed to be the total maximum number of shares of Common Stock issuable upon the exercise of such rights or options or upon the conversion or exchange of all such Convertible Securities and (y) the "Total Consideration Received" for such Common Stock shall be deemed to be (i) the total amount, if any, received or receivable by the Corporation as consideration for the granting of such rights or options, plus (ii) the minimum aggregate amount of additional consideration payable to the Corporation upon the exercise of such rights or options, plus, (iii) in the case of such rights or options which relate to Convertible Securities, the minimum aggregate amount of additional consideration, if any, payable upon the conversion or exchange of such Convertible Securities..

(B) In the case of the issuance or sale by the Corporation (whether directly or by assumption in a merger or otherwise) of any Convertible Securities (other than any such issue or sale of such Convertible Securities made upon exercise of any rights to subscribe for or to purchase or any option to purchase any such Convertible Securities for which adjustments of the Conversion Price have been or are to be made pursuant the preceding subparagraph (i), whether or not the rights to exchange or convert thereunder are immediately exercisable, the "Number of Shares" of Common Stock that shall be deemed to have been issued by the Corporation shall be the total maximum number of shares of Common Stock issuable upon the conversion or exchange of all such Convertible Securities and the Total Consideration Received for the Common Stock issuable upon such conversion or exchange shall be the total amount received or receivable by the Corporation as consideration for the issue or sale of such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Corporation upon the conversion or exchange thereof

(C) In case any shares of Common Stock or Convertible Securities or any rights or options to purchase any such Common Stock or Convertible Securities shall be issued or sold for cash, the consideration received therefor shall be deemed to be the amount received by the Corporation therefor, without deducting therefrom any expenses incurred or any underwriting commissions, discounts or concessions paid or allowed by the Corporation in connection therewith. In case any shares of Common Stock or Convertible Securities or any rights or options to purchase any such Common Stock or Convertible Securities shall be issued or sold for a consideration other than cash, the amount of the consideration other than cash received by the Corporation shall be deemed to be the fair value of such consideration as determined in good faith by the Board of Directors of the Corporation, without deducting therefrom any expenses incurred or any underwriting commissions, discounts or concessions paid or allowed by the Corporation in connection therewith. In case any shares of Common Stock or Convertible Securities or any rights or options to purchase such Common Stock or Convertible Securities shall be issued in connection with any merger or consolidation in which the Corporation is the surviving corporation, the amount of consideration therefor shall be deemed to be the fair value as determined by the Board of Directors of the Corporation of such portion of the assets and business of the non-surviving corporation or corporations as such Board

shall determine to be attributable to such Common Stock, Convertible Securities, rights or options, as the case may be. In the event of any consolidation or merger of the Corporation in which the Corporation is not the surviving corporation or in the event of any sale of all or substantially all of the assets of the Corporation for stock or other securities of any other corporation, the Corporation shall be deemed to have issued a number of shares of its Common Stock for stock or securities of the other corporation computed on the basis of the actual exchange ratio on which the transaction was predicated and for a consideration equal to the fair market value on the date of such transaction of such stock or securities of the other corporation, and if any such calculation results in adjustment of the Conversion Price, the determination of the number of shares of Common Stock issuable upon conversion immediately prior to such merger, conversion or sale, for purposes of subparagraph (7) below, shall be made after giving effect to such adjustment of the Conversion Price.

(iii) In case the Corporation shall take a record of the holders of its Common Stock for the purpose of entitling them (i) to receive a dividend or other distribution payable in Common Stock or in Convertible Securities, or in any rights or options to purchase any Common Stock or Convertible Securities, or (ii) to subscribe for or purchase Common Stock or Convertible Securities, then such record date shall be deemed to be the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such rights of subscription or purchase, as the case may be.

(iv) The number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Corporation, and the disposition of any such shares shall be considered an issue or sale of Common Stock for the purpose of this subparagraph (b).

(3) In case the Corporation shall (i) declare a dividend upon the Common Stock payable in Common Stock (other than a dividend declared to effect a subdivision of the outstanding shares of Common Stock, as described in subparagraph (5) below) or Convertible Securities, or in any rights or options to purchase Common Stock or Convertible Securities, or (ii) declare any other dividend or make any other distribution upon the Common Stock payable otherwise than out of earnings or earned surplus, then thereafter each holder of shares of Series C Preferred Stock upon the conversion thereof will be entitled to receive the number of shares of Common Stock into which such shares of Series C Preferred Stock, as the case may be, have been converted, and, in addition and without payment therefor, each dividend described in clause (i) above and each dividend or distribution described in clause (ii) above which such holder would have received by way of dividends or distributions if continuously since such holder became the record holder of such shares of Series C Preferred Stock, as the case may be, such holder (i) had been the record holder of the number of shares of Common Stock then received, and (ii) had retained all dividends or distributions in stock or securities (including Common Stock or Convertible Securities, and any rights or options to purchase any Common Stock or Convertible Securities) payable in respect of such Common Stock or in respect

of any stock or securities paid as dividends or distributions and originating directly or indirectly from such Common Stock, other than such dividends and distributions which had previously been paid in respect of the Series C Preferred Stock and received by such holder. For the purposes of the foregoing a dividend or distribution other than in cash shall be considered payable out of earnings or earned surplus only to the extent that such earnings or earned surplus are charged an amount equal to the fair value of such dividend or distribution as determined by the Board of Directors of the Corporation.

(4) In case the Corporation shall at any time subdivide its outstanding shares of Common Stock into a greater number of shares, the Conversion Price in effect immediately prior to such subdivision shall be proportionately reduced, and conversely, in case the outstanding shares of Common Stock of the Corporation shall be combined into a smaller number of shares, the Conversion Price in effect immediately prior to such combination shall be proportionately increased.

(5) If (i) the purchase price provided for in any right or option referred to in clause (i) of subparagraph (2), or (ii) the additional consideration, if any, payable upon the conversion or exchange of Convertible Securities referred to in clause (i) or clause (ii) of subparagraph (3), or (iii) the rate at which any Convertible Securities referred to in clause (i) or clause (ii) of subparagraph (2) are convertible into or exchangeable for Common Stock, shall change at any time (other than under or by reason of provisions designed to protect against dilution), the Conversion Price then in effect hereunder shall forthwith be increased or decreased to such Conversion Price as would have been obtained had the adjustments made upon the issuance of such rights, options or Convertible Securities been made upon the basis of (a) the issuance of the number of shares of Common Stock theretofore actually delivered upon the exercise of such options or rights or upon the conversion or exchange of such Convertible Securities, and the total consideration received therefor, and (b) the issuance at the time of such change of any such options, rights, or Convertible Securities then still outstanding for the consideration, if any, received by the Corporation therefor and to be received on the basis of such changed price; and on the expiration of any such option or right or the termination of any such right to convert or exchange such Convertible Securities, the Conversion Price then in effect hereunder shall forthwith be increased to such Conversion Price as would have obtained had the adjustments made upon the issuance of such rights or options or Convertible Securities been made upon the basis of the issuance of the shares of Common Stock theretofore actually delivered (and the total consideration received therefor) upon the exercise of such rights or options or upon the conversion or exchange of such Convertible Securities. If the purchase price provided for in any right or option referred to in clause (i) of subparagraph (2), or the rate at which any Convertible Securities referred to in clause (i) or clause (ii) of subparagraph (2) are convertible into or exchangeable for Common Stock, shall decrease at any time under or by reason of provisions with respect thereto designed to protect against dilution, then in case of the delivery of Common Stock upon the exercise

of any such right or option or upon conversion or exchange of any such Convertible Security, the Conversion Price then in effect hereunder shall forthwith be decreased to such Conversion Price as would have obtained had the adjustments made upon the issuance of such right, option or Convertible Security been made upon the basis of the issuance of (and the total consideration received for) the shares of Common Stock delivered as aforesaid.

(6) If any capital reorganization or reclassification of the capital stock of the Corporation, or consolidation or merger of the Corporation with another corporation, or the sale of all or substantially all of its assets to another corporation shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities or assets with respect to or in exchange for Common Stock, then, as a condition of such reorganization, reclassification, consolidation, merger or sale, and subject to subparagraph (a) above, lawful and adequate provision shall be made whereby the holders of Series C Preferred Stock shall thereafter have the right to receive upon the basis and upon the terms and conditions specified herein and in lieu of the shares of the Common Stock of the Corporation immediately theretofore receivable upon the conversion of Series C Preferred Stock, such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such stock immediately theretofore receivable upon the conversion of Series C Preferred Stock, as the case may be, had such reorganization, reclassification, consolidation, merger or sale not taken place, plus all dividends unpaid and accumulated or accrued thereon to the date of such reorganization, reclassification, consolidation, merger or sale, and in any such case appropriate provision shall be made with respect to the rights and interests of the holders of Series C Preferred Stock and to the end that the provisions hereof (including without limitation provisions for adjustments of the Conversion Price and of the number of shares receivable upon the conversion of Series C Preferred Stock) shall thereafter be applicable, as nearly as may be in relation to any shares of stock, securities or assets thereafter receivable upon the conversion of Series C Preferred Stock. The Corporation shall not effect any such consolidation, merger or sale, unless prior to the consummation thereof the successor corporation (if other than the Corporation) resulting from such consolidation or merger or the corporation purchasing such assets shall assume by written instrument executed and mailed to the registered holders of Series C Preferred Stock, at the last addresses of such holders appearing on the books of the Corporation, the obligation to deliver to such holders such shares of stock, securities or assets as, in accordance with the foregoing provisions, such holders may be entitled to receive.

(7) Upon any adjustment of the Conversion Price, then and in each case the Corporation shall give written notice thereof, by first-class mail, postage prepaid, addressed to the registered holders of Series C Preferred Stock, at the addresses of such holders as shown on the books of the Corporation, which notice shall state the Conversion Price resulting from such adjustment and the increase or decrease,

if any, in the number of shares receivable at such price upon the conversion of Series C Preferred Stock, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

(8) In case at any time:

(i) the Corporation shall declare any cash dividend on its Common Stock at a rate in excess of the rate of the last cash dividend theretofore paid;

(ii) the Corporation shall pay any dividend payable in stock upon its Common Stock or make any distribution (other than regular cash dividends) to the holders of its Common Stock;

(iii) the Corporation shall offer for subscription pro rata to the holders of its Common Stock any additional shares of stock of any class or other rights;

(iv) there shall be any capital reorganization, or reclassification of the capital stock of the Corporation, or consolidation or merger of the Corporation with, or sale of all or substantially all of its assets to, another corporation; or

(v) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Corporation;

then, in any one or more of said cases, the Corporation shall give written notice, by first-class mail, postage prepaid, addressed to the registered holders of Series C Preferred Stock at the addresses of such holders as shown on the books of the Corporation, of the date on which (a) the books of the Corporation shall close or a record shall be taken for such dividend, distribution or subscription rights, or (b) such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up shall take place, as the case may be. Such notice shall also specify the date as of which the holders of Common Stock of record shall participate in such dividend, distribution or subscription rights, or shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, or winding up, as the case may be. Such written notice shall be given at least 20 days prior to the action in question and not less than 20 days prior to the record date or the date on which the Corporation's transfer books are closed in respect thereto.

(9) If any event occurs as to which in the opinion of the Board of Directors of the Corporation the other provisions of this paragraph (b) are not strictly applicable or if strictly applicable would not fairly protect the rights of the holders of Series C Preferred Stock in accordance with the essential intent and principles of such provisions, then the Board of Directors shall make an adjustment in the

application of such provisions, in accordance with such essential intent and principles, so as to protect such rights as aforesaid.

(10) As used in this paragraph (b) the term "Common Stock" shall mean and include the Corporation's presently authorized Common Stock and shall also include any capital stock of any class of the Corporation hereafter authorized which shall not be limited to a fixed sum or percentage in respect of the rights of the holders thereof to participate in dividends or in the distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of the Corporation; provided that the shares receivable pursuant to conversion of shares of Series A Preferred Stock, shares of Series B Preferred Stock and shares of Series C Preferred Stock shall include shares designated as Common Stock of the Corporation as of the date of issuance of such shares of Series A Preferred Stock, shares of Series B Preferred Stock or shares of Series C Preferred Stock , or, in case of any reclassification of the outstanding shares thereof, the stock, securities or assets provided for in subparagraph (7) above.

(11) No fractional shares of Common Stock shall be issued upon conversion, but, instead of any fraction of a share which would otherwise be issuable, the Corporation shall pay a cash adjustment in respect of such fraction in an amount equal to the same fraction of the market price per share of Common Stock as of the close of business on the day of conversion. "Market price" shall mean if the Common Stock is traded on a securities exchange or on the Nasdaq National Market or the Nasdaq SmallCap Market, the closing price of the Common Stock on such exchange or the Nasdaq National Market or the Nasdaq SmallCap Market, or, if the Common Stock is otherwise traded in the over-the-counter market, the closing bid price, in each case averaged over a period of 20 consecutive business days prior to the date as of which "market price" is being determined. If at any time the Common Stock is not traded on an exchange or the Nasdaq National Market or the Nasdaq SmallCap Market, or otherwise traded in the over-the-counter market, the "market price" shall be deemed to be the higher of (i) the book value thereof as determined by any firm of independent public accountants of recognized standing selected by the Board of Directors of the Corporation as of the last day of any month ending within 60 days preceding the date as of which the determination is to be made, or (ii) the fair value thereof determined in good faith by the Board of Directors of the Corporation as of a date which is within 15 days of the date as of which the determination is to be made.

(c) Mandatory Conversion. The Series C Preferred shall automatically be converted into shares of Common Stock of the Corporation immediately upon the earlier of (i) the close of business on the date specified by written consent or agreement of sixty-seven percent (67%) of the outstanding Series C Preferred Stock, voting as a single class on an as-converted basis, or (ii) the closing of the Corporation's sale of its Common Stock in a public offering pursuant to a registration statement on Form S-1 or Form SB-2 (or any then current forms similar thereto) under the Securities Act of 1933, as amended, in which the aggregate public offering price of the securities sold for cash by the Corporation in the offering, before

deduction of underwriters' commissions and expenses, is at least $10,000,000. As used herein, the term "closing" shall mean the delivery by the Corporation to the underwriters of certificates representing the shares of Common Stock of the Corporation offered to the public against delivery to the Corporation by such underwriters of payment therefor.

(d) Option to Redeem.

(i) At any time on or after July 1, 2007, the Company may state its intention to redeem any or all of the Series C Preferred Stock for a cash price equal to $10.00 plus all accrued plus unpaid dividends, by providing an irrevocable, written notice (the "Redemption Notice") to the Holder. The Redemption Notice shall state that the Company seeks to redeem all or a portion of the Series C Preferred Stock held by such Holder, specifying the number of shares to be redeemed, and shall set the date for the Company's (which date shall be not more than thirty (30) days after the date of such Redemption Notice

(ii) The Holder shall have the right to convert after a Redemption Notice has been received but before actual redemption.

ARTICLE 5. The following provisions are inserted for the management of the business and for the conduct of the affairs of the Corporation and for defining and regulating the powers of the Corporation and its directors and shareholders and are in furtherance and not in limitation of the powers conferred upon the Corporation by statute:

(a) The number of directors of the Corporation shall consist of not less than five or more than 12, the exact number to be fixed by the Board of Directors from time to time pursuant to a resolution adopted by the affirmative vote of a majority of the entire Board of Directors. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

(b) Directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at a meeting of stockholders and entitled to vote in the election of directors. No director need be a stockholder.

(c) Any vacancy on the Board of Directors resulting from death, retirement, resignation, disqualification or removal from office or other cause, as well as any vacancy resulting from an increase in the number of directors which occurs between annual meetings of the stockholders at which directors are elected, shall be filled only by a majority vote of the remaining directors then in office, though less than a quorum, except that any vacancies resulting from removal from office by a vote of the stockholders for cause may be filled by a vote of the stockholders at the same meeting at which such removal occurs. The directors chosen to fill vacancies shall hold office until the next annual meeting of stockholders and until their successors have been duly elected and qualified.

(d) In furtherance and not in limitation of the powers conferred by statute, the power to adopt, amend or repeal the by-laws of the Corporation may be exercised by the Board of Directors; provided, however, that the Board of Directors may not amend or repeal any by-law adopted by the stockholders and declared as part of such adoption to be amendable or repealable

only by the stockholders. Any adoption, amendment or repeal of the by-laws by the Board of Directors shall require the approval of a majority of the Board of Directors.

(e) The stockholders shall also have the power to adopt, amend or repeal the by-laws; provided, however, that in addition to any vote of the holders of any class or series of stock required by law or this Certificate of Incorporation, Sections 2.3, 2.5, 3.3, 3.9, 3.10, 3.11, 3.17 and 8.7 and Article 6 of the by-laws shall not be altered, amended or repealed, and no provision inconsistent therewith shall be adopted, by the stockholders without the affirmative vote of the holders, voting together as a single class, of not less than two-thirds of the outstanding stock of the Corporation entitled to vote in the election of directors.

(f) Action by the stockholders of the Corporation may only be taken at an annual or special stockholders' meeting as described in the by-laws of the Corporation and no stockholder action may be taken by written consent in lieu of a meeting. Unless otherwise restricted by the Certificate of Incorporation, by-laws any action required or permitted to be taken at any meeting of the Board of Directors or any committee thereof may be taken without a meeting if all of the members of the Board of Directors or committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of the proceedings of the Board of Directors or committee.

(g) Except as otherwise prescribed by law or by this Certificate of Incorporation, special meetings of stockholders, for any purpose or purposes, may only be called by the officers and directors as provided in the by-laws of the Corporation.

(h) In addition to any vote of the holders of any class or series of stock required by law or this Certificate of Incorporation, this Article 5 and Articles 6 and 7 of this Certificate of Incorporation shall not be altered, amended or repealed, and no provision inconsistent therewith shall be adopted, by the stockholders without the affirmative vote of the holders, voting together as a single class, of not less than two-thirds of the outstanding stock of the Corporation entitled to vote in the election of directors.

ARTICLE 6. No director shall be personally liable to the Corporation or its stockholders for monetary damages for breach of a fiduciary duty as a director; provided, however, that to the extent required by the provisions of Section 102(b)(7) of the Delaware General Corporation Law or any successor statute, or any other laws of the State of Delaware, this provision shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived an improper personal benefit. If the Delaware General Corporation Law hereafter is amended to authorize the further elimination or limitation of the liability of directors, then the liability of a director of the Corporation, in addition to the limitation on personal liability provided herein, shall be limited to the fullest extent permitted by the amended Delaware General Corporation Law. Any repeal or modification of this Article 6 by the stockholders of the Corporation and, to the fullest extent permitted by Delaware law, any

amendment, repeal, or modification of the Delaware General Corporation Law relating to the rights conferred under this Article 6, shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director of the Corporation existing as of the time of such amendment, repeal or modification.

ARTICLE 7. (a) Each person who was or is made a party or is threatened to be made a party, or who was or is a witness without being named a party, to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative or investigative, any appeal in such an action, suit or proceeding, and any inquiry or investigation that could lead to such an action, suit or proceeding (a "Proceeding"), by reason of the fact that such individual is or was a director or officer of the Corporation, or while a director or officer of the Corporation is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another corporation, partnership, trust, employee benefit plan or other enterprise, shall be indemnified and held harmless by the Corporation from and against any judgments, penalties (including excise taxes), fines, amounts paid in settlement and reasonable expenses (including court costs and attorneys' fees) actually incurred by such person in connection with such Proceeding if it is determined that he acted in good faith and reasonably believed (i) in the case of conduct in his official capacity on behalf of the Corporation that his conduct was in the Corporation's best interests, (ii) in all other cases, that his conduct was not opposed to the best interests of the Corporation, and (iii) with respect to any Proceeding which is a criminal action, that he had no reasonable cause to believe his conduct was unlawful; provided, however, that in the event a determination is made that such person is liable to the Corporation or is found liable on the basis that personal benefit was improperly received by such person, the indemnification is limited to reasonable expenses actually incurred by such person in connection with the Proceeding and shall not be made in respect of any Proceeding in which such person shall have been found liable for willful or intentional misconduct in the performance of his duty to the Corporation. The termination of any Proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself be determinative of whether the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any Proceeding which is a criminal action, had reasonable cause to believe that his conduct was unlawful. A person shall be deemed to have been found liable in respect of any claim, issue or matter only after the person shall have been so adjudged by a court of competent jurisdiction after exhaustion of all appeals there from.

(b) Determination of Indemnification. Any indemnification under the foregoing Article 7(a) (unless ordered by a court of competent jurisdiction) shall be made by the Corporation only upon a determination that indemnification of such person is proper in the circumstances by virtue of the fact that it shall have been determined that such person has met the applicable standard of conduct. Such determination shall be made (1) by a majority vote of a quorum consisting of directors who at the time of the vote are not named defendants or respondents in the Proceeding; (2) if such quorum cannot be obtained, by a majority vote of a committee of the Board of Directors, designated to act in the matter by a majority of all directors, consisting of two or more directors who at the time of the vote are not named defendants or respondents in the Proceeding; (3) by special legal counsel (in a written opinion) selected by the Board of Directors or a committee of the Board by a vote as set forth in Subsection (1) or (2) of

this Section, or, if such quorum cannot be established, by a majority vote of all directors (in which directors who are named defendants or respondents in the Proceeding may participate); or (4) by the stockholders of the Corporation in a vote that excludes the shares held by directors who are named defendants or respondents in the Proceeding.

(c) Advancement of Expenses. Reasonable expenses, including court costs and attorneys' fees, incurred by a person who was or is a witness or who was or is named as a defendant or respondent in a Proceeding, by reason of the fact that such individual is or was a director or officer of the Corporation, or while a director or officer of the Corporation is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another corporation, partnership, trust, employee benefit plan or other enterprise, shall be paid by the Corporation at reasonable intervals in advance of the final disposition of such Proceeding, and without the determination set forth in Article 7(b), upon receipt by the Corporation of a written affirmation by such person of his good faith belief that he has met the standard of conduct necessary for indemnification under this Article 7, and a written undertaking by or on behalf of such person to repay the amount paid or reimbursed by the Corporation if it is ultimately determined that he is not entitled to be indemnified by the Corporation as authorized in this Article 7. Such written undertaking shall be an unlimited obligation of such person and it may be accepted without reference to financial ability to make repayment.

(d) Permissive Indemnification. The Board of Directors of the Corporation may authorize the Corporation to indemnify employees or agents of the Corporation, and to advance the reasonable expenses of such persons, to the same extent, following the same determinations and upon the same conditions as are required for the indemnification of and advancement of expenses to directors and officers of the Corporation.

(e) Nature of Rights. The indemnification and advancement of expenses provided hereunder shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under the By-laws, any agreement, vote of stockholders or disinterested directors or otherwise, both as to actions taken in an official capacity and as to actions taken in any other capacity while holding such office, shall continue as to a person who has ceased to be a director, officer, employee or agent of the Corporation and shall inure to the benefit of the heirs, executors and administrators of such person. The rights to indemnification and advancement of expenses conferred in this Article 7 shall be contract rights. Any amendment, repeal, or modification of this Article 7 and, to the fullest extent permitted by Delaware law, any amendment, repeal, or modification of the Delaware General Corporation Law relating to the rights conferred under this Article 7, shall be prospective only and shall not adversely affect any right or protection of any then current or former director or officer of the Corporation existing at the time of such amendment, repeal, or modification.

(f) Insurance. The Corporation shall have the power and authority to purchase and maintain insurance or another arrangement on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or who is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent, or similar functionary of another foreign or domestic corporation, partnership, joint venture, sole

proprietorship, trust, employee benefit plan or other enterprise, against any liability, claim, damage, loss or risk asserted against such person and incurred by such person in any such capacity or arising out of the status of such person as such, irrespective of whether the Corporation would have the power to indemnify and hold such person harmless against such liability under the provisions hereof. If the insurance or other arrangement is with a person or entity that is not regularly engaged in the business of providing insurance coverage, the insurance or arrangement may provide for payment of a liability with respect to which the Corporation would not have the power to indemnify the person only if including coverage for the additional liability has been approved by the stockholders of the Corporation. Without limiting the power of the Corporation to procure or maintain any kind of insurance or other arrangement, the Corporation may, for the benefit of persons indemnified by the Corporation, (1) create a trust fund; (2) establish any form of self-insurance; (3) secure its indemnity obligation by grant of a security interest or other lien on the assets of the Corporation; or (4) establish a letter of credit, guaranty, or surety arrangement. The insurance or other arrangement may be procured, maintained, or established within the Corporation or with any insurer or other person deemed appropriate by the Board of Directors regardless of whether all or part of the stock or other securities of the insurer or other person are owned in whole or part by the Corporation. In the absence of fraud, the judgment of the Board of Directors as to the terms and conditions of the insurance or other arrangement and the identity of the insurer or other person participating in the arrangement shall be conclusive and the insurance or arrangement shall not be voidable and shall not subject the directors approving the insurance or arrangement to liability, on any ground, regardless of whether the directors participating in the approval is a beneficiary of the insurance or arrangement.

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IN WITNESS WHEREOF, the undersigned has executed this Amended and Restated Certificate of Incorporation as of _____ _____, 2009.

Name: Paul J. Travers
Title: Chief Executive Officer and President

AMENDED AND RESTATED BY-LAWS
OF
VUZIX CORPORATION
(a Delaware corporation)

Article 1

Name and Offices

1.1 Name. The name of the Corporation is Vuzix Corporation.

1.2 Registered Office and Agent. The Corporation shall establish, designate and continuously maintain a registered office and agent in the State of Delaware, subject to the following provisions:

(a) Registered Office. The Corporation shall establish and continuously maintain in the State of Delaware a registered office which may be, but need not be, the same as its place of business.

(b) Registered Agent. The Corporation shall designate and continuously maintain in the State of Delaware a registered agent, which agent may be either an individual resident of the State of Delaware whose business office is identical with such registered office, or a domestic corporation or a foreign corporation authorized to transact business in the State of Delaware, having a business office identical with such registered office.

(c) Change of Registered Office or Agent. The Corporation may change its registered office or change its registered agent, or both, upon the filing in the Office of the Secretary of State of Delaware of a statement setting forth the facts required by law, and executed for the Corporation by a duly authorized officer.

1.3 Other Offices. The Corporation may also have offices at such other places within and without the State of Delaware as the Board of Directors may, from time to time, determine the business of the Corporation may require.

Article 2

Directors

2.1 Management Powers. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors, which may exercise all powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these By-laws directed or required to be exercised or done by the stockholders.

2.2 Number and Qualification. The Board of Directors shall consist of not less than five nor more than 12 members. Directors need not be residents of the State of Delaware nor stockholders of the Corporation. The number of directors shall be fixed, and may be increased or decreased within the limits specified above, from time to time by resolution of the Board of

Directors; provided, however, no decrease shall have the effect of shortening the term of any incumbent director.

2.3 Voting on Directors. At each annual meeting of stockholders, directors shall be elected by the vote of the holders of a plurality of the shares entitled to vote on the election of directors and represented in person or by proxy at the meeting. Cumulative voting in the election of directors is expressly prohibited.

2.4 Election and Term. Members of the Board of Directors shall hold office until the next annual meeting of the stockholders of the Corporation and until their successors shall have been elected and qualified, subject to his or her earlier removal or resignation.

2.5 Vacancies and New Directorships. Vacancies in the Board of Directors, whether arising by virtue of the death, resignation or removal of any director, and newly created directorships resulting from any increase in the authorized number of directors may be filled by the affirmative vote of a majority of the directors then in office, although less than a quorum, or by a sole remaining director, or by the vote of the stockholders at an annual meeting of the stockholders or at a special meeting of the stockholders called for that purpose, and the directors so elected shall hold office until the next annual meeting of stockholders and until their successors are elected and qualified.

2.6 Removal and Resignation. Any director may be removed either with or without cause at any duly constituted special or annual meeting of stockholders, by the affirmative vote of a majority in number of shares of the stockholders present in person or by proxy at any meeting and entitled to vote for the election of such director, provided notice of intention to act upon such matter shall have been given in the notice calling such meeting. Any director may resign at any time by submitting a resignation in writing to the Chief Executive Officer of the Corporation. Any such resignation shall take effect upon receipt of such resignation if no date is specified in the resignation, or, if a later date is specified in the resignation, upon such later date. Unless otherwise specified in the resignation, the acceptance of such resignation shall not be necessary to make it effective.

2.7 Meetings. The meetings of the Board of Directors shall be held and conducted subject to the following regulations:

(a) Place. Meetings of the Board of Directors, annual, regular or special, are to be held at the principal office or place of business of the Corporation, or such other place, either within or without the State of Delaware, as may be specified in the respective notices, or waivers of notice, thereof.

(b) Annual Meeting. The Board of Directors shall meet each year immediately after the annual meeting of the stockholders, at the place where such meeting of the stockholders has been held, for the purpose of organization, election of officers, appointment of members to the committees established by the Board of Directors, and consideration of any other business that may properly be brought before the meeting. No notice of any kind for such annual meeting shall be required.

(c) Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such time and at such place or places as shall from time to time be determined and designated by the Board of Directors.

(d) Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board, the Chief Executive Officer or the President of the Corporation on notice of two days to each director either personally or by mail or by telegram, telex or facsimile transmission and delivery. Special meetings of the Board of Directors shall be called by the Chairman of the Board, the Chief Executive Officer, the President or the Secretary in like manner and on like notice on the written request of any two directors.

(e) Notice and Waiver of Notice. Written notice of the meeting stating the place, day and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called shall be delivered in the manner set forth in Section 5.1, not less than two nor more than 30 days before the date of the meeting by or at the direction of the Chairman of the Board, the Chief Executive Officer, the President or the Secretary of the Corporation to each director of the Corporation. Attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except if a director attends for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

(f) Quorum. At all meetings of the Board of Directors, a majority of the total number of directors shall constitute a quorum for the transaction of business, unless a greater number is required by law or by the Certificate of Incorporation. If a quorum shall not be present at any meeting of directors, the directors present thereat may adjourn the meeting, from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

(g) Requisite Vote. Each director shall have one vote on each matter submitted to a vote at any meeting of the Board of Directors. The act of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board of Directors.

2.8 Action without Meetings. Unless otherwise restricted by the Certificate of Incorporation or these By-laws, any action required or permitted by law to be taken at any meeting of the Board of Directors may be taken without a meeting, if all members of the Board of Directors consent thereto in writing and such written consent is filed with the minutes of proceedings of the Board of Directors.

2.9 Committees. Committees designated and appointed by the Board of Directors shall function subject to and in accordance with the following regulations and procedures:

(a) Designation and Appointment. The Board of Directors may, by resolution adopted by a majority of the entire Board of Directors, designate and appoint one or more committees under such name or names and for such purpose or function as may be deemed appropriate.

(b) Members; Alternate Members; Terms. Each committee thus designated and appointed shall consist of one or more of the directors. The Board of Directors may designate one or more of its members as alternate members of any committee, who may, subject to any limitations imposed by the entire Board of Directors, replace absent or disqualified members at any meeting of that committee. The members or alternate members of any such committee shall serve at the pleasure of and subject to the discretion of the Board of Directors.

(c) Authority. Each committee, to the extent provided in the resolution of the Board of Directors creating same, shall have and may exercise such of the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation as the Board of Directors may direct and delegate, except, however, those matters which are required by statute to be reserved unto or acted upon by the entire Board of Directors. A committee shall have no power to act except as authorized by the Board of Directors or these By-laws. The designation of a committee and the delegation of authority to it shall not relieve the Board of Directors or any individual director of any responsibility imposed upon the Board or an individual director by law.

(d) Records. Each such committee shall keep and maintain regular records or minutes of its meetings and report the same to the Board of Directors when required.

(e) Change in Number. The number of members or alternate members of any committee appointed by the Board of Directors, as herein provided, may be increased or decreased (but not below one) from time to time by appropriate resolution adopted by a majority of the entire Board of Directors.

(f) Vacancies. Vacancies in the membership of any committee designated and appointed hereunder shall be filled by the Board of Directors, at a regular or special meeting of the Board of Directors, in a manner consistent with the provisions of this Section 2.9.

(g) Removal and Resignation. Any member or alternate member of any committee appointed hereunder may be removed by the Board of Directors by the affirmative vote of a majority of the entire Board of Directors, whenever in its judgment the best interests of the Corporation will be served thereby. A member of any committee may resign at any time by submitting a resignation in writing to either the Chairman of the committee or to the Chief Executive Officer of the Corporation. Any such resignation shall take effect upon receipt of such resignation if no date is specified in the resignation, or, if a later date is specified in the resignation, upon such later date.

(h) Meetings. The time, place and notice (if any) of committee meetings shall be determined by the members of such committee.

(i) Quorum. At meetings of any committee appointed hereunder, a majority of the members or alternate members shall constitute a quorum for the transaction of business. If a quorum is not present at a meeting of such committee, the members or alternate members present may adjourn the meeting from time to time, without notice other than an announcement at the meeting, until a quorum is present.

(j) Requisite Vote. The act of a majority of the members and alternate members of the committee present at any meeting at which a quorum is present shall be the act of such committee, except as otherwise specifically provided by statute or by the Certificate of Incorporation or by these By-laws.

(k) Compensation. Appropriate compensation for members and alternate members of any committee appointed pursuant to the authority hereof may be authorized by the action of a majority of the entire Board of Directors pursuant to the provisions of Section 2.11.

(l) Action without Meetings. Any action required or permitted to be taken at a meeting of any committee may be taken without a meeting if all members of such committee consent thereto in writing, and such written consent is filed with the minutes of the proceedings of such committee.

(m) Combination of Board Committees. If the Board of Directors determines that any one or more of the committees previously established by or otherwise designated should not exist, the Board of Directors may assign the functions of such committee to a new or existing committee or to the Board of Directors acting as a committee of the whole.

2.10 Executive Committee. Except as otherwise limited by the Board of Directors or by these By-laws, the Executive Committee, if so designated by the Board of Directors, shall have and may exercise, when the Board is not in session, all the powers of the Board of Directors in the management of the business and affairs of the Corporation. The Board shall have the power at any time to change the membership of the Executive Committee, to fill vacancies in it, or to dissolve it. The Executive Committee may make rules for the conduct of its business and may appoint such assistance as it shall from time to time deem necessary. A majority of the members of the Executive Committee, if more than a single member, shall constitute a quorum.

2.11 Presumption of Assent. A director who is present at any meeting of the Board of Directors, or at a committee thereof of which the director is a member, at which action on any matter is taken shall be presumed to have assented to the action taken unless such director votes against such action or abstains from voting because of an asserted conflict of interest and such vote against or abstention is noted in the minutes of the meeting.

2.12 Compensation. By appropriate resolution of the Board of Directors, the directors may be reimbursed their expenses, if any, of attendance at each meeting of the Board of Directors or any committee thereof of which the director is a member and may be paid a fixed sum (as determined from time to time by the vote of a majority of the directors then in office) for attendance at each meeting of the Board of Directors or any committee thereof of which the director is a member or a stated salary as director. No such payment shall preclude any director from serving the Corporation in another capacity and receiving compensation therefor.

2.13 Maintenance of Records. The directors may keep the books and records of the Corporation, except such as are required by law to be kept within the State, outside the State of Delaware or at such place or places as they may, from time to time, determine.

2.14 Interested Directors and Officers. No contract or other transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any firm of which one or more of its directors or officers are members or employees, or in which they are interested, or between the Corporation and any corporation or association of which one or more of its directors or officers are stockholders, members, directors, officers, or employees, or in which they are interested, shall be void or voidable solely for this reason, or solely because of the presence of such director or directors or officer or officers at the meeting of the Board of Directors, which acts upon, or in reference to, such contract, or transaction, if (a) the material facts of such relationship or interest shall be disclosed or known to the Board of Directors and the Board of Directors shall, nevertheless in good faith, authorize, approve and ratify such contract or transaction by a vote of a majority of the directors present, such interested director or directors to be counted in determining whether a quorum is present, but not to be counted in calculating the majority of such quorum necessary to carry such vote; (b) the material facts of such relationship or interest as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by the vote of the stockholders; or (c) the contract or transaction is fair to the Corporation as of the time it is authorized, approved or ratified by the Board of Directors, a committee thereof or the stockholders. The provisions of this Section 2.14 shall not be construed to invalidate any contract or other transaction which would otherwise be valid under the common and statutory law applicable thereto.

2.15 Minutes. Minutes shall be recorded of all meetings of the Board of Directors or any committee thereof. A copy of the minutes shall be distributed to all members of the Board of Directors, or the applicable committee thereof, as appropriate, for approval.

2.16 Advisory Directors. The Board of Directors may appoint one or more advisory directors as it shall from time to time determine. Each advisory director appointed shall hold office for the term for which such advisory director is appointed or until his or her earlier death, resignation, retirement or removal, with or without cause, as set forth in this Section 2.16. Each advisory director shall qualify as an advisory director following appointment as such by agreeing to act or acting in such capacity. An advisory director shall be entitled, but shall have no obligation, to attend and be present at the meetings of the Board of Directors, although a meeting of the Board of Directors may be held without notice to any advisory director and no advisory director shall be considered in determining whether a quorum of the Board of Directors is present. An advisory director shall serve only as an advisor to the Board of Directors and as such shall advise and counsel the Board of Directors on the business and operations of the Corporation as requested from time to time by the Board of Directors; however, an advisory director shall not be entitled or permitted to vote on any matter presented to the Board of Directors or to bind the Corporation in any manner. Any advisory director may be removed by the Chairman of the Board or by the affirmative vote of a majority of the entire Board of Directors, whenever in their judgment the best interest of the Corporation will be served thereby. An advisory director, in consideration of such person serving as an advisory director, shall be entitled to receive from the Corporation such fees for attendance at meetings of the Board of Directors as the Board shall from time to time determine. In addition, an advisory director shall be entitled to receive from the Corporation reimbursement for the reasonable expenses incurred

by such person in connection with the performance of such person's duties as an advisory director.

Article 3

Stockholders

3.1 Place of Meetings. Each meeting of the stockholders is to be held at the principal offices of the Corporation or at such other place, either within or without the State of Delaware, as may be specified in the notice of the meeting or in a duly executed waiver of notice thereof.

3.2 Annual Meetings. The annual meeting of the stockholders for the election of directors and for the transaction of such other business as may properly come before the meeting (a) by or at the direction of the Board of Directors; or (b) by any stockholder in compliance with Section 3.9, shall be held at such date, time and place as may be designated each year by resolution of the Board of Directors. The failure to hold the annual meeting within the designated period of time or on the designated date shall not work a forfeiture or dissolution of the Corporation.

3.3 Special Meetings. Special meetings of the stockholders, for any purpose or purposes, may be called by the Board of Directors, the Chairman of the Board, the Chief Executive Officer or the President. The notice of a special meeting shall state the purpose or purposes of the proposed meeting and the business to be transacted at any such special meeting of stockholders and shall be limited to the purposes stated in the notice thereof.

3.4 Record Date. As more specifically provided in Section 7.6 hereof, the Board of Directors may fix in advance a record date for the purpose of determining stockholders entitled to notice of or to vote at a meeting of stockholders, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be less than ten nor more than 60 days prior to such meeting. In the absence of any action by the Board of Directors fixing the record date, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day before the day on which notice of the meeting is given, or, if notice is waived, at the close of business on the day before the meeting is held.

3.5 Notice. Written notice of the meeting stating the place, day and hour of the meeting, and in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered in the manner set forth in Section 5.1 not less than ten nor more than 60 days before the date of the meeting by or at the direction of the Board of Directors, the Chairman of the Board, the Chief Executive Officer, the President, or the Secretary, to each stockholder of record entitled to vote at such meeting as determined in accordance with of Section 3.4.

3.6 Voting List. The officer or agent having charge and custody of the stock transfer books of the Corporation shall prepare, at least ten days before each meeting of stockholders, a complete list of the stockholders entitled to vote at such meeting, arranged in alphabetical order and showing the address of each stockholder and the number of shares having voting privileges registered in the name of each stockholder. Such list shall be open to the examination of any

stockholder, for any purpose germane to the meeting, during ordinary business hours for a period of not less than ten days prior to such meeting either at the principal office of the Corporation or at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any stockholder during the entire time of the meeting. The original stock ledger or transfer book, or a duplicate thereof, shall be prima facie evidence as to identity of the stockholders entitled to examine such list or stock ledger or transfer book and to vote at any such meeting of the stockholders. The failure to comply with the requirements of this Section shall not affect the validity of any action taken at said meeting.

3.7 Quorum. Except as otherwise provided by statute or by the Certificate of Incorporation or by these By-laws, the holders of a majority of the shares of the capital stock issued and outstanding and entitled to vote thereat, represented in person or by proxy, shall constitute a quorum for the transaction of business at all meetings of the stockholders. If, however, such quorum shall not be present or represented at any such meeting of the stockholders, the stockholders entitled to vote thereat, present in person, or represented by proxy, shall have the power to adjourn the meeting, from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such reconvened meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the reconvened meeting, a notice of said meeting shall be given to each stockholder entitled to vote at said meeting.

3.8 Withdrawal of Quorum. If a quorum is present at the time of commencement of any meeting, the stockholders present at such duly convened meeting may continue to transact any business which may properly come before said meeting until adjournment thereof, notwithstanding the withdrawal from such meeting of sufficient holders of the shares of capital stock entitled to vote thereat to leave less than a quorum remaining.

3.9 Stockholder Proposals. In order for a stockholder to properly bring any item of business before an annual meeting of stockholders, such stockholder (a "Noticing Stockholder") must give timely notice thereof in writing to the Secretary of the Corporation in compliance with the requirements of this Section 3.9. This Section 3.9 shall constitute an advance notice provision for annual meetings for purposes of Rule 14a-4(c)(1) under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

(a) To be timely, a Noticing Stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the 120th day and not later than 5:00 p.m. Eastern Time on the 90th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the Stockholder to be timely must be so delivered not earlier than 5:00 p.m. Eastern Time on the 120th day prior to the date of such annual meeting and not later than 5:00 p.m. Eastern Time on the later of the 90th day prior to the date of such annual meeting

or, if the first public announcement of the date of such annual meeting is less than 100 days prior to the date of such annual meeting not later than 5:00 p.m. Eastern Time, the 10th day following the day on which public announcement of the date of such meeting is first made by the Corporation. In no event shall any adjournment or postponement of an annual meeting, or the announcement thereof, commence a new time period for the giving of a stockholder's notice.

(b) To be in proper form, whether in regard to a nominee for election to the Board of Directors or other business, a Noticing Stockholder's notice to the Secretary must:

(i) Set forth, as to the Noticing Stockholder and, if the Noticing Stockholder holds for the benefit of another, the beneficial owner on whose behalf the nomination or proposal is made, the following information together with a representation as to the accuracy of the information:

(A) the name and address of the Noticing Stockholder as they appear on the Corporation's books and, if the Noticing Stockholder holds for the benefit of another, the name and address of such beneficial owner (collectively, the "Holder");

(B) the class or series and number of shares of the Corporation that are, directly or indirectly, owned beneficially and/or of record;

(C) any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the Corporation or with a value derived in whole or in part from the value of any class or series of shares of the Corporation, whether or not the instrument or right shall be subject to settlement in the underlying class or series of capital stock of the Corporation or otherwise (a "Derivative Instrument") that is directly or indirectly owned beneficially by the Holder and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the Corporation;

(D) any proxy, contract, arrangement, understanding, or relationship pursuant to which the Holder has a right to vote or has granted a right to vote any shares of any security of the Corporation;

(E) any short interest in any security of the Corporation (for purposes of these By-laws a person shall be deemed to have a short interest in a security if the Holder directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has the opportunity to profit or share in any profit derived from any decrease in the value of the subject security);

(F) any rights to dividends on the shares of the Corporation owned beneficially by the Holder that are separated or separable from the underlying shares of the Corporation;

(G) any proportionate interest in shares of the Corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership or limited

liability company or similar entity in which the Holder is a general partner or, directly or indirectly, beneficially owns an interest in a general partner, is the manager, managing member or directly or indirectly beneficially owns an interest in the manager or managing member of a limited liability company or similar entity,

(H) any performance-related fees (other than an asset-based fee) that the Holder is entitled to based on any increase or decrease in the value of shares of the Corporation or Derivative Instruments, if any;

(I) any arrangements, rights, or other interests described in Sections 3.9(b)(i)(C)-(H) held by members of such Holder's immediate family sharing the same household;

(J) any other information relating to the Holder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for, as applicable, the proposal and/or for the election of directors in a contested election pursuant to Section 14 of the Exchange Act and the rules and regulations thereunder; and

(K) any other information reasonably requested by the Corporation.

Such information shall be provided as of the date of the notice and shall be supplemented by the Holder not later than ten days after the record date for the meeting to disclose such ownership as of the record date.

(ii) If the notice relates to any business other than a nomination of a director or directors that the Holder proposes to bring before the meeting, the notice must also set forth:

(A) a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest of the Holder, in such business; and

(B) a description of all agreements, arrangements and understandings, direct and indirect, between the Holder, and any other person or persons (including their names) in connection with the proposal of such business by the Holder.

(iii) If the notice relates to any nomination of a director or directors that the Holder proposes to bring before the meeting, the notice must also set forth:

(A) information relating to the Holder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors in a contested election pursuant to Section 14 of the Exchange Act and the rules and regulations thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected);

(B) a description of all direct and indirect compensation and other material monetary agreements, arrangements, and understandings during the past three years, and any other material relationships, between or among the Holder and respective affiliates and associates, or others acting in concert therewith, on the one hand, and each proposed nominee, and his or her respective affiliates and associates, or others acting in concert therewith, on the other hand, including, without limitation all information that would be required to be disclosed pursuant to Item 404 of Regulation S-K under the Securities Act of 1933, as amended, if the Holder making the nomination or on whose behalf the nomination is made, if any, or any affiliate or associate thereof or person acting in concert therewith, were the "registrant" for purposes of Item 404 and the nominee were a director or executive officer of such registrant; and

(C) a representation that the Noticing Stockholder intends to vote or cause to be voted such stock at the meeting and intends to appear in person or by a representative at the meeting to nominate the person or propose the business specified in the notice.

(iv) With respect to each nominee for election or reelection to the Board of Directors, the Noticing Stockholder shall include a completed and signed questionnaire, representation, and agreement required by Section 3.10. The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of the proposed nominee to serve as an independent director of the Corporation or that could be material to a reasonable stockholder's understanding of the independence, or lack thereof, of the nominee.

(c) Notwithstanding anything in Section 3.9(a) to the contrary, if the number of directors to be elected to the Board of Directors is increased and there is no public announcement by the Corporation naming all of the nominees for director or specifying the size of the increased Board of Directors at least 100 days prior to the first anniversary of the preceding year's annual meeting, a Stockholder's Notice shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than 5:00 p.m. Eastern Time on the 10th day following the day on which the public announcement naming all nominees or specifying the size of the increased Board of Directors is first made by the Corporation.

(d) For purposes of these By-laws, "public announcement" shall mean disclosure in a press release reported by a national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14, or 15(d) of the Exchange Act and the rules and regulations thereunder.

(e) Only those persons who are nominated in accordance with the procedures set forth in these By-laws shall be eligible to serve as directors. Only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in these By-laws. Except as otherwise provided by law, the Certificate of Incorporation, or these By-laws, the chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought

before the meeting was made or proposed, as the case may be, in compliance with the procedures set forth in these By-laws and, if any proposed nomination or business is not in compliance with these By-laws, to declare that such proposal or nomination shall be disregarded.

(f) Notwithstanding the foregoing provisions of these By-laws, a Noticing Stockholder also shall comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in these By-laws; provided, however, that any references in these By-laws to the Exchange Act or the rules thereunder are not intended to and shall not limit the requirements applicable to nominations or proposals as to any other business to be considered pursuant to Section 3.2 or Section 3.9.

(g) Nothing in these By-laws shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act. Notice of stockholder proposals that are, or that the Noticing Stockholder intends to be, governed by Rule 14a-8 under the Exchange Act are not governed by these By-laws and these By-laws shall govern all stockholder proposals that are not made pursuant to Rule 14a-8.

The chairman of any meeting of stockholders may refuse to acknowledge the nomination of any person or the proposal of any business not made in compliance with the foregoing procedures.

3.10 Submission of Questionnaire, Representation and Agreement. To be eligible to be a nominee for election or reelection as a director of the Corporation by a Holder, a person must complete and deliver (in accordance with the time periods prescribed for delivery of notice under Section 3.9) to the Secretary at the principal executive offices of the Corporation a written questionnaire providing the information requested about the background and qualifications of such person and the background of any other person or entity on whose behalf the nomination is being made and a written representation and agreement (the questionnaire, representation and agreement to be in the form provided by the Secretary upon written request) that such person:

(a) is not and will not become a party to:

(i) any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity as to how the person, if elected as a director of the Corporation, will act or vote on any issue or question (a "Voting Commitment") that has not been disclosed to the Corporation, or

(ii) any Voting Commitment that could limit or interfere with the person's ability to comply, if elected as a director of the Corporation, with the person's fiduciary duties under applicable law,

(b) is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than the Corporation with respect to any direct or indirect compensation, reimbursement, or indemnification in connection with service or action as a director that has not been disclosed therein, and

(c) in the person's individual capacity and on behalf of any person or entity on whose behalf the nomination is being made, would be in compliance, if elected as a director of the Corporation, and will comply with all applicable publicly disclosed corporate governance, conflict of interest, confidentiality, and stock ownership and trading policies and guidelines of the Corporation.

3.11 Nomination of Directors. Only persons who are nominated in accordance with the procedure set forth in Section 3.9 or who are nominated for election as directors by the Board of Directors may be nominated for election as directors of the Corporation

3.12 Requisite Vote. With respect to any action to be taken by the stockholders as to any matter other than the election of directors, the affirmative vote of the holders of a majority of the shares of capital stock entitled to vote on that matter and represented in person or by proxy at a meeting of stockholders at which a quorum is present shall be the act of the stockholders.

3.13 Voting Power. In the exercise of voting power with respect to each matter properly submitted to a vote at any meeting of stockholders, each stockholder of the capital stock of the Corporation having voting power shall be entitled to one vote for each such share held in his name on the books of the Corporation, except to the extent otherwise specified by the Certificate of Incorporation pertaining to a series of preferred stock.

3.14 Exercise of Voting Power; Proxies. Each stockholder entitled to vote at a meeting or to express consent or dissent to corporate action in writing without a meeting may vote either in person or authorize another person or persons to act for him by proxy duly appointed by instrument in writing subscribed by such stockholder or by his duly authorized attorney-in-fact; provided, however, no such appointment of proxy shall be valid, voted or acted upon after the expiration of three years from the date of execution of such written instrument of appointment, unless otherwise stated therein. All proxies must indicate the number of shares subject to the proxy and must bear the date on which the proxy was executed by the stockholder. A telegram, telex, cablegram, or similar transmission by a stockholder, or a photographic, photostatic, facsimile, or similar reproduction of a writing executed by a stockholder, shall be treated as an execution in writing. A proxy shall be revocable unless expressly designated therein as irrevocable and coupled with an interest. Proxies coupled with an interest include the appointment as proxy of: (i) a pledgee; (ii) a person who purchased or agreed to purchase or owns or holds an option to purchase the shares voted; (iii) a creditor of the Corporation who extended its credit under terms requiring the appointment; (iv) an employee of the Corporation whose employment contract requires the appointment; or (v) a party to a voting agreement created under Section 218 of the Delaware General Corporation Law. Each proxy shall be filed with the Secretary prior to or at the time of the meeting. Any vote may be taken by voice vote or by show of hands unless someone entitled to vote at the meeting objects, in which case written ballots shall be used.

3.15 Conduct of Meetings. The Board of Directors of the Corporation may adopt by resolution such rules and regulations for the conduct of the meeting of stockholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the chairman of any meeting of stockholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the

judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) rules and procedures for maintaining order at the meeting and the safety of those present; (iii) limitations on attendance at or participation in the meeting to stockholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (iv) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (v) limitations on the time allotted to questions or comments by participants. Except to the extent determined by the Board of Directors or the chairman of the meetings, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

3.16 Inspectors of Elections.

(a) Appointment of Inspectors. In advance of any meeting of stockholders, the Board of Directors may appoint any persons, other than nominees for office, as inspectors of election to act at that meeting or any adjournment of that meeting. If inspectors of election are not appointed, the chairman of any meeting may, and on the request of any stockholder or stockholder's proxy shall, appoint inspectors of election at the meeting. The number of inspectors shall be either one or three. If appointed at a meeting on the request of one or more stockholders or proxies, the majority of shares present shall determine whether one or three inspectors are to be appointed. In case any person appointed as inspector fails to appear or fails or refuses to act, the vacancy may be filled by appointment by the Board of Directors in advance of the meeting or at the meeting by the person acting as chairman.

(b) Duties of Inspectors. The inspectors of election shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies. The inspectors shall also receive votes, ballots, or consents, hear and determine all challenges and questions in any way arising in connection with the right to vote, count and tabulate all votes or consents, determine the result, and do such acts as may be proper to conduct the election or vote with fairness to all stockholders. The inspectors of election shall perform their duties impartially, in good faith, to the best of their ability, and as expeditiously as is practical.

(c) Vote of Inspectors. If there are three inspectors of election the decision, act, or certificate of a majority is effective in all respects as the decision, act, or certificate of all.

(d) Report of Inspectors. On request of the chairman of the meeting or of any stockholder or the stockholder's proxy, the inspectors shall make a report in writing of any challenge or question or matter determined by them and execute a certificate of any fact found by them. Any report or certificate made by them is prima facie evidence of the facts stated therein.

3.17 No Action without Meetings. Action by the stockholders may only be taken at a duly constituted annual or special meeting of stockholders and may not be taken by written consent in lieu of a meeting.

Article 4

Officers

4.1 Designation. The officers of the Corporation shall be chosen by the Board of Directors and shall consist of the offices of:

(a) President, Secretary and Treasurer; and

(b) Such other offices and officers (including a Chairman of the Board, Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and one or more Vice Presidents) and assistant officers as the Board of Directors shall deem necessary.

4.2 Election of Officers. Each officer designated in Section 4.1(a) hereof shall be elected by the Board of Directors on the expiration of the term of office of such officer, as herein provided, or whenever a vacancy exists in such office. Each officer or agent designated in Section 4.1(b) above may be elected by the Board of Directors at any meeting.

4.3 Qualifications. No officer need be a stockholder of the Corporation or a resident of Delaware. No officer is required to be a director, except the Chairman of the Board. Any two or more offices may be held by the same person.

4.4 Term of Office. Unless otherwise specified by the Board of Directors at the time of election or appointment, the term of office of each officer shall expire on the date of the first meeting of the Board of Directors next following the annual meeting of stockholders each year. Each such officer, unless elected or appointed to an additional term, shall serve until the expiration of the term of his office or, if earlier, his death, resignation or removal.

4.5 Authority. Officers shall have such authority and perform such duties in the management of the Corporation as are provided in these By-laws or as may be determined by resolution of the Board of Directors not inconsistent with these By-laws.

4.6 Removal and Resignation. Any officer elected or appointed by the Board of Directors may be removed by the Board of Directors with or without cause by a majority of the directors at any annual, regular or special meeting of the Board of Directors. Such removal shall be without prejudice to the contractual rights, if any, of the person so removed. Election or appointment of an officer shall not of itself create contractual rights. Any officer may resign at any time by submitting a resignation in writing to the Board of Directors or to the President of the Corporation. Any such resignation shall take effect upon receipt of such resignation if no date is specified in the resignation, or, if a later date is specified in the resignation, upon such later date. Unless otherwise specified in the resignation, the acceptance of such resignation shall not be necessary to make it effective.

4.7 Vacancies. Any vacancy occurring in any office of the Corporation (by death, resignation, removal or otherwise) shall be filled by the Board of Directors. The new officer elected to fill the vacancy shall serve in such capacity until the unexpired term of the predecessor in office.

4.8 Compensation. The compensation of all officers and agents of the Corporation shall be fixed from time to time by or in the manner prescribed by the Board of Directors.

4.9 Chairman of the Board. If a Chairman of the Board is elected, he shall be chosen from among the directors. The Chairman of the Board shall have the power to call special meetings of the stockholders and of the directors for any purpose or purposes, and he shall preside at all meetings of the Board of Directors, unless he shall be absent or unless he shall, at his election, designate the Vice Chairman, if one is elected, to preside in his stead. The Chairman of the Board shall submit a report as to the operations of the Corporation for the preceding fiscal year to the Board of Directors as soon as practicable in each year and, with the Chief Executive Officer, to the stockholders at or prior to each annual meeting of the stockholders, and the Chairman of the Board shall from time to time report to the Board of Directors matters within his knowledge which the interest of the Corporation may require to be so reported. The Chairman of the Board shall advise and counsel the Chief Executive Officer and other officers of the Corporation and shall exercise such powers and perform such duties as shall be assigned to or required by him from time to time by the Board of Directors.

4.10 Chief Executive Officer. Subject to the supervision of the Board of Directors, the Chief Executive Officer, if one is elected, shall have responsibility for the general supervision, management, direction and control of the business and affairs of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. The Chief Executive Officer shall execute bonds, mortgages and other contracts requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise executed and except where the execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Corporation. The Chief Executive Officer shall preside at all meetings of the stockholders and, in the absence of the Chairman of the Board, at all meetings of the Board of Directors. The Chief Executive Officer shall have the general powers and duties of management usually vested in the office of chief executive officer of a corporation and shall perform such other duties and possess such other authority and powers as the Board of Directors may from time to time prescribe. The Chief Executive Officer shall have general supervision and direction of all other officers, agents and employees of the Corporation to see that their respective duties are properly performed. In the event no individual is elected to the office of Chief Operating Officer, the Chief Executive Officer shall have the powers and perform the duties of the Chief Operating Officer.

4.11 Chief Operating Officer. Subject to the supervision of the Board of Directors, the Chief Operating Officer, if one is elected, shall have responsibility for the general supervision of the day to day operations of the Corporation. The Chief Operating Officer shall have the general powers and duties of management usually vested in the office of chief operating officer of a corporation and shall perform such other duties and possess such other authority and powers as the Board of Directors may from time to time prescribe.

4.12 Chief Financial Officer. Subject to the supervision of the Board of Directors, the Chief Financial Officer, if one is elected, shall have responsibility for the financial and accounting affairs of the Corporation and shall exercise supervisory responsibility for the performance of the duties of the Treasurer. The Chief Financial Officer shall have the general

powers and duties of management usually vested in the office of chief financial officer of a corporation and shall perform such other duties and possess such other authority and powers as the Board of Directors may from time to time prescribe.

4.12 President. In the absence or disability of the Chief Executive Officer, the President shall perform all of the duties of the Chief Executive Officer and when so acting shall have all the powers and be subject to all the restrictions upon the Chief Executive Officer, including the power to sign all instruments and to take all actions which the Chief Executive Officer is authorized to perform by the Board of Directors or these By-laws. The President shall have the general powers and duties usually vested in the office of president of a corporation and shall perform such other duties and possess such other authority and powers as the Board of Directors may from time to time prescribe or as the Chief Executive Officer may from time to time delegate.

4.13 Vice Presidents. The Vice President, or if there shall be more than one, the Vice Presidents in the order determined by the majority vote of the Board of Directors, shall, in the prolonged absence or disability of the President, perform the duties and exercise the powers of the President and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe or as the Chief Executive Officer may from time to time delegate.

4.14 Secretary. The Secretary shall be the custodian of and shall maintain the corporate books and records and shall record or see to the proper recording of all proceedings of the meetings of the stockholders and the Board of Directors of the Corporation in a book to be maintained for that purpose and shall perform like duties for the standing committees when required. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors, the Chairman of the Board, the Chief Executive Officer, or the President. The Secretary shall have custody of the corporate seal of the Corporation, and the Secretary, or an Assistant Secretary, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by his signature or by the signature of such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the corporation and to attest the affixing by his signature. The Secretary shall have the authority to sign stock certificates and shall perform all duties usually vested in the office of secretary of a corporation and shall perform such other duties and possess such other powers as the Board of Directors may from time to time prescribe or as the Chief Executive Officer may from time to time delegate.

4.15 Assistant Secretaries. The Assistant Secretary, or if there be more than one, the Assistant Secretaries in the order determined by the Board of Directors, shall in the absence or disability of the Secretary, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe or as the Chief Executive Officer may from time to time delegate.

4.16 Treasurer. The Treasurer shall, subject to the supervision of the Chief Financial Officer if one is elected, have charge of and be responsible for all funds, securities, receipts and disbursements of the Corporation and shall deposit, or cause to be deposited, in the name and to

the credit of the Corporation, all moneys and valuable effects in such banks, trust companies, or other depositories as shall from time to time be selected by or in the manner prescribed by the Board of Directors. The Treasurer shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation; the Treasurer shall render to the President, the Chief Executive Officer, the Chief Financial Officer and each member of the Board of Directors, whenever requested, an account of all of his transactions as Treasurer and of the financial condition of the Corporation and shall perform all duties usually vested in the office of treasurer of a corporation and shall perform such other duties and possess such other powers as the Board of Directors may from time to time prescribe or as the Chief Financial Officer may from time to time delegate.

4.17 Assistant Treasurers. The Assistant Treasurer, or, if there shall be more than one, the Assistant Treasurers in the order determined by the Board of Directors, shall, in the absence or disability of the Treasurer, perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe or as the Chief Financial Officer may from time to time delegate.

4.18 Bonds. Any officer or employee of the Corporation shall, if required by the Board of Directors, furnish a bond for the faithful discharge of the duties held by such officer or employee in such form and amount and with such surety or sureties as is satisfactory to the Board of Directors.

Article 5

Notices

5.1 Method of Notice. Whenever under the Delaware General Corporation Law, the Certificate of Incorporation or these By-laws, notice is required to be given to any director or stockholder, it shall not be construed to mean personal notice, but such notice may be given in writing and delivered personally, through the United States mail, by a nationally recognized overnight delivery service or by means of telegram, telex, facsimile transmission or electronic transmission (e-mail), addressed to such director or stockholder, at his address, telex or facsimile transmission number, or e-mail address, as the case may be, as it appears on the records of the Corporation, with postage and fees thereon prepaid. Such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail or with an overnight delivery service or when transmitted by telegram, telex or facsimile transmission, e-mail, or personally delivered, as the case may be. The Secretary or the secretary of any committee of the Board of Directors responsible for the giving of notice to any director shall give notice of the time and place of each meeting by United States mail or overnight delivery service at least three days before such meeting, or if by telegram, telex or facsimile transmission or e-mail, at least twenty-four hours before the meeting.

5.2 Waiver. Whenever any notice is required to be given under the Delaware General Corporation Law, the Certificate of Incorporation or these By-laws, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Attendance by such person or persons, whether in person or by proxy, at any meeting requiring notice shall constitute a waiver

of notice of such meeting, except where such person attends the meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

5.3 Exception to Requirement of Notice. Any notice required to be given to any stockholder under any provision of the Delaware General Corporation Law, the Certificate of Incorporation or these By-laws need not be given to the stockholder if: (1) notice of two consecutive annual meetings and all notices of meetings held during the period between those annual meetings, if any, or (2) all (but in no event less than two) payments (if sent by first class mail) of dividends or interest on securities during a twelve-month period have been mailed to that person, addressed at his address as shown on the records of the Corporation, and have been returned undeliverable. Any action or meeting taken or held without notice to such a person shall have the same force and effect as if the notice had been duly given and, if the action taken by the Corporation is reflected in any certificate filed with the Secretary of State, that certificate need not state that notice was not given to persons to whom notice was not required to be given pursuant to this Section. If such a person delivers to the Corporation a written notice setting forth his then current address, the requirement that notice be given to that person shall be reinstated.

Article 6

Indemnification

6.1 Mandatory Indemnification. Each person who was or is made a party or is threatened to be made a party, or who was or is a witness without being named a party, to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative or investigative, any appeal in such an action, suit or proceeding, and any inquiry or investigation that could lead to such an action, suit or proceeding (a "Proceeding"), by reason of the fact that such individual is or was a director or officer of the Corporation, or while a director or officer of the Corporation is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another corporation, partnership, trust, employee benefit plan or other enterprise, shall be indemnified and held harmless by the Corporation from and against any judgments, penalties (including excise taxes), fines, amounts paid in settlement and reasonable expenses (including court costs and attorneys' fees) actually incurred by such person in connection with such Proceeding if it is determined that he acted in good faith and reasonably believed (i) in the case of conduct in his official capacity on behalf of the Corporation that his conduct was in the Corporation's best interests, (ii) in all other cases, that his conduct was not opposed to the best interests of the Corporation, and (iii) with respect to any Proceeding which is a criminal action, that he had no reasonable cause to believe his conduct was unlawful; provided, however, that in the event a determination is made that such person is liable to the Corporation or is found liable on the basis that personal benefit was improperly received by such person, the indemnification is limited to reasonable expenses actually incurred by such person in connection with the Proceeding and shall not be made in respect of any Proceeding in which such person shall have been found liable for willful or intentional misconduct in the performance of his duty to the Corporation. The termination of any Proceeding by judgment, order, settlement,

conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself be determinative of whether the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any Proceeding which is a criminal action, had reasonable cause to believe that his conduct was unlawful. A person shall be deemed to have been found liable in respect of any claim, issue or matter only after the person shall have been so adjudged by a court of competent jurisdiction after exhaustion of all appeals there from.

6.2 Determination of Indemnification. Any indemnification under the foregoing Section 6.1 (unless ordered by a court of competent jurisdiction) shall be made by the Corporation only upon a determination that indemnification of such person is proper in the circumstances by virtue of the fact that it shall have been determined that such person has met the applicable standard of conduct. Such determination shall be made (1) by a majority vote of a quorum consisting of directors who at the time of the vote are not named defendants or respondents in the Proceeding; (2) if such quorum cannot be obtained, by a majority vote of a committee of the Board of Directors, designated to act in the matter by a majority of all directors, consisting of two or more directors who at the time of the vote are not named defendants or respondents in the Proceeding; (3) by special legal counsel (in a written opinion) selected by the Board of Directors or a committee of the Board by a vote as set forth in Subsection (1) or (2) of this Section, or, if such quorum cannot be established, by a majority vote of all directors (in which directors who are named defendants or respondents in the Proceeding may participate); or (4) by the stockholders of the Corporation in a vote that excludes the shares held by directors who are named defendants or respondents in the Proceeding.

6.3 Advancement of Expenses. Reasonable expenses, including court costs and attorneys' fees, incurred by a person who was or is a witness or who was or is named as a defendant or respondent in a Proceeding, by reason of the fact that such individual is or was a director or officer of the Corporation, or while a director or officer of the Corporation is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another corporation, partnership, trust, employee benefit plan or other enterprise, shall be paid by the Corporation at reasonable intervals in advance of the final disposition of such Proceeding, and without the determination set forth in Section 6.2, upon receipt by the Corporation of a written affirmation by such person of his good faith belief that he has met the standard of conduct necessary for indemnification under this Article 6, and a written undertaking by or on behalf of such person to repay the amount paid or reimbursed by the Corporation if it is ultimately determined that he is not entitled to be indemnified by the Corporation as authorized in this Article 6. Such written undertaking shall be an unlimited obligation of such person and it may be accepted without reference to financial ability to make repayment.

6.4 Permissive Indemnification. The Board of Directors of the Corporation may authorize the Corporation to indemnify employees or agents of the Corporation, and to advance the reasonable expenses of such persons, to the same extent, following the same determinations and upon the same conditions as are required for the indemnification of and advancement of expenses to directors and officers of the Corporation.

6.5 Nature of Rights. The indemnification and advancement of expenses provided hereunder shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under the Certificate of Incorporation, these By-laws, any agreement, vote of stockholders or disinterested directors or otherwise, both as to actions taken in an official capacity and as to actions taken in any other capacity while holding such office, shall continue as to a person who has ceased to be a director, officer, employee or agent of the Corporation and shall inure to the benefit of the heirs, executors and administrators of such person. The rights to indemnification and advancement of expenses conferred in this Article 6 shall be contract rights. Any amendment, repeal, or modification of this Article 6 and, to the fullest extent permitted by Delaware law, any amendment, repeal, or modification of the Delaware General Corporation Law, shall not adversely affect any right or protection of any then current or former director or officer of the Corporation existing at the time of such amendment, repeal, or modification.

6.6 Insurance. The Corporation shall have the power and authority to purchase and maintain insurance or another arrangement on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or who is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent, or similar functionary of another foreign or domestic corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise, against any liability, claim, damage, loss or risk asserted against such person and incurred by such person in any such capacity or arising out of the status of such person as such, irrespective of whether the Corporation would have the power to indemnify and hold such person harmless against such liability under the provisions hereof. If the insurance or other arrangement is with a person or entity that is not regularly engaged in the business of providing insurance coverage, the insurance or arrangement may provide for payment of a liability with respect to which the Corporation would not have the power to indemnify the person only if including coverage for the additional liability has been approved by the stockholders of the Corporation. Without limiting the power of the Corporation to procure or maintain any kind of insurance or other arrangement, the Corporation may, for the benefit of persons indemnified by the Corporation, (1) create a trust fund; (2) establish any form of self-insurance; (3) secure its indemnity obligation by grant of a security interest or other lien on the assets of the Corporation; or (4) establish a letter of credit, guaranty, or surety arrangement. The insurance or other arrangement may be procured, maintained, or established within the Corporation or with any insurer or other person deemed appropriate by the Board of Directors regardless of whether all or part of the stock or other securities of the insurer or other person are owned in whole or part by the Corporation. In the absence of fraud, the judgment of the Board of Directors as to the terms and conditions of the insurance or other arrangement and the identity of the insurer or other person participating in the arrangement shall be conclusive and the insurance or arrangement shall not be voidable and shall not subject the directors approving the insurance or arrangement to liability, on any ground, regardless of whether the directors participating in the approval is a beneficiary of the insurance or arrangement.

Article 7

Stock

7.1 Stock Certificates; Uncertificated Shares. Shares of the Corporation's capital stock shall be represented by certificates, provided that the Board of Directors may provide by resolution that some or all of any or all classes or series of the Corporation's capital stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation.

7.2 Entitlement to Certificates. Every holder of shares of the Corporation's capital stock represented by certificates shall be entitled to have a certificate in the form approved by the Board of Directors and signed in the name of the Corporation by the Chairman of the Board, the President or a Vice President and the Secretary or an Assistant Secretary of the Corporation, and sealed with the seal of the Corporation or a facsimile thereof, certifying the class of capital stock and the number of shares represented thereby as owned or held by such stockholder in the Corporation. At such time as the Corporation may be authorized to issue shares of more than one class, every certificate shall set forth upon the face or back of such certificate a statement of the designations, preferences, limitations and relative rights of the shares of each class authorized to be issued, as required by the laws of the State of Delaware, or may state that the Corporation will furnish a copy of such statement without charge to the holder of such certificate upon receipt of a written request therefore from such holder.

7.3 Signatures. The signatures of the Chairman of the Board, the President, the Vice President, the Secretary or the Assistant Secretary upon any stock certificate may be facsimiles. In case any officer or officers who have signed, or whose facsimile signature or signatures have been placed upon any such certificate or certificates, shall cease to serve as such officer or officers of the Corporation, whether because of death, resignation, removal or otherwise, before such certificate or certificates are issued and delivered by the Corporation, such certificate or certificates may nevertheless be adopted by the Corporation and be issued and delivered with the same effect as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures have been used thereon had not ceased to serve as such officer or officers of the Corporation.

7.4 Issuance of Stock. Shares of the Corporation's capital stock (both treasury and authorized but unissued) may be issued for such consideration (not less than par value, except for treasury shares which may be issued for such consideration) and to such persons as the Board of Directors may determine from time to time. Shares shall not be issued until the full amount of the consideration, fixed as provided by law, has been paid.

7.5 Payment for Stock. Consideration for the issuance of shares of the Corporation's capital stock shall be paid, valued and allocated as follows:

(a) Consideration. The consideration for the issuance of shares shall consist of any tangible or intangible benefit to the Corporation or other property of any kind or nature, including cash, promissory notes, services performed, contracts for services to be performed, or other securities of the Corporation.

(b) Valuation. In the absence of fraud in the transaction, the determination of the Board of Directors as to the value of consideration received shall be conclusive.

(c) Effect. When consideration, fixed as provided by law, has been paid, the shares shall be deemed to have been issued and shall be considered fully paid and nonassessable.

(d) Allocation of Consideration. The consideration received for shares shall be allocated by the Board of Directors, in accordance with law, between the stated capital and capital surplus accounts.

(e) Subscriptions. Unless otherwise provided in the subscription agreement, subscriptions of shares, whether made before or after organization of the Corporation, shall be paid in full in such installments and at such times as shall be determined by the Board of Directors. Any call made by the Board of Directors for payment on subscriptions shall be uniform as to all shares of the same class and series. In case of default in the payment of any installment or call when payment is due, the Corporation may proceed to collect the amount due in the same manner as any debt due to the Corporation.

7.6 Record Date. For the purpose of determining stockholders entitled to notice of or to vote at any meeting of stockholders, or any adjournment thereof, or entitled to receive a distribution by the Corporation (other than a distribution involving a purchase or redemption by the Corporation of any of its own shares) or a share dividend, or in order to make a determination of stockholders for any other proper purpose, the Board of Directors may fix a record date for any such determination of stockholders, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than 60 days, and in the case of a meeting of stockholders, not less than ten days prior to the date on which the particular action requiring such determination of stockholders is to be taken. If no record date is fixed for the determination of stockholders entitled to notice of or to vote at a meeting of stockholders, or stockholders entitled to receive a distribution (other than a distribution involving a purchase or redemption by the Corporation of any of its own shares) or a share dividend, the date before the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such distribution or share dividend is adopted, as the case may be, shall be the record date for such determination of stockholders. When a determination of stockholders entitled to vote at any meeting of stockholders has been made as provided in this Section, such determination shall be applied to any adjournment thereof.

7.7 Registered Owners. Prior to due presentment for registration of transfer of a certificate evidencing shares of the capital stock of the Corporation in the manner set forth in Section 7.9 hereof, the Corporation shall be entitled to recognize the person registered as the owner of such shares on its books (or the books of its duly appointed transfer agent, as the case may be) as the person exclusively entitled to vote, to receive notices and dividends with respect to, and otherwise exercise all rights and powers relative to such shares; and the Corporation shall not be bound or otherwise obligated to recognize any claim, direct or indirect, legal or equitable, to such shares by any other person, whether or not it shall have actual, express or other notice thereof, except as otherwise provided by the laws of Delaware.

7.8 Lost, Stolen or Destroyed Certificates. The Corporation shall issue a new certificate in place of any certificate for shares previously issued if the registered owner of the certificate satisfies the following conditions:

(a) Proof of Loss. Submits proof in affidavit form satisfactory to the Corporation that such certificate has been lost, destroyed or wrongfully taken;

(b) Timely Request. Requests the issuance of a new certificate before the Corporation has notice that the certificate has been acquired by a purchaser for value in good faith and without notice of an adverse claim;

(c) Bond. Gives a bond in such form, and with such surety or sureties, with fixed or open penalty, as the Corporation may direct, to indemnify the Corporation (and its transfer agent and registrar, if any) against any claim that may be made or otherwise asserted by virtue of the alleged loss, destruction, or theft of such certificate or certificates; and

(d) Other Requirements. Satisfies any other reasonable requirements imposed by the Corporation.

In the event a certificate has been lost, apparently destroyed or wrongfully taken, and the registered owner of record fails to notify the Corporation within a reasonable time after he has notice of such loss, destruction, or wrongful taking, and the Corporation registers a transfer (in the manner herein below set forth) of the shares represented by the certificate before receiving such notification, such prior registered owner of record shall be precluded from making any claim against the Corporation for the transfer required hereunder or for a new certificate.

7.9 Registration of Transfers. Subject to the provisions hereof, the Corporation shall register the transfer of a certificate evidencing shares of its capital stock presented to it for transfer if:

(a) Endorsement. Upon surrender of the certificate to the Corporation (or its transfer agent, as the case may be) for transfer, the certificate (or an appended stock power) is properly endorsed by the registered owner, or by his duly authorized legal representative or attorney-in-fact, with proper written evidence of the authority and appointment of such representative, if any, accompanying the certificate;

(b) Guaranty and Effectiveness of Signature. The signature of such registered owner or his legal representative or attorney-in-fact, as the case may be, has been guaranteed by a national banking association or member of the New York Stock Exchange, and reasonable assurance in a form satisfactory to the Corporation is given that such endorsements are genuine and effective;

(c) Adverse Claims. The Corporation has no notice of an adverse claim or has otherwise discharged any duty to inquire into such a claim;

(d) Collection of Taxes. Any applicable law (local, state or federal) relating to the collection of taxes relative to the transaction has been complied with; and

(e) Additional Requirements Satisfied. Such additional conditions and documentation as the Corporation (or its transfer agent, as the case may be) shall reasonably require, including without limitation thereto, the delivery with the surrender of such stock certificate or certificates of proper evidence of succession, assignment or other authority to obtain transfer thereof, as the circumstances may require, and such legal opinions with reference to the requested transfer as shall be required by the Corporation (or its transfer agent) pursuant to the provisions of these By-laws and applicable law, shall have been satisfied.

7.10 Restrictions on Transfer. Any restrictions imposed by the Corporation on the sale or other disposition of its shares and on the transfer thereof must be copied at length or in summary form on the face, or so copied on the back and referred to on the face, of each certificate representing shares to which the restriction applies. The certificate may however state on the face or back that such a restriction exists pursuant to a specified document and that the Corporation will furnish a copy of the document to the holder of the certificate without charge upon written request to the Corporation at its principal place of business.

Article 8

General Provisions

8.1 Dividends. Subject to the provisions of the Delaware General Corporation Law and the Certificate of Incorporation, dividends of the Corporation shall be declared and paid pursuant to the following regulations:

(a) Declaration and Payment. Dividends on the issued and outstanding shares of capital stock of the Corporation may be declared by the Board of Directors at any regular or special meeting and may be paid in cash, in property, or in shares of capital stock. Such declaration and payment shall be at the discretion of the Board of Directors.

(b) Record Date. The Board of Directors may fix in advance a record date for the purpose of determining stockholders entitled to receive payment of any dividend, such record date to be not more than 60 days prior to the payment date of such dividend, or the Board of Directors may close the stock transfer books for such purpose for a period of not more than 60 days prior to the payment date of such dividend. In the absence of action by the Board of Directors, the date upon which the Board of Directors adopts the resolution declaring such dividend shall be the record date.

8.2 Reserves. There may be created by resolution of the Board of Directors out of the surplus of the Corporation such reserve or reserves as the Board of Directors from time to time, in its discretion, think proper to provide for contingencies, or to repair or maintain any property of the Corporation, or for such other purposes as the Board of Directors shall think beneficial to the Corporation, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

8.3 Contracts and Negotiable Instruments. Except as otherwise provided by law or these By-laws, any contract or other instrument relative to the business of the Corporation may be executed and delivered in the name of the Corporation and on its behalf by the Chairman of

the Board, the Chief Executive Officer, the Chief Operating Officer or the President of the Corporation. The Board of Directors may authorize any other officer or agent of the Corporation to enter into any contract or execute and deliver any contract in the name and on behalf of the Corporation, and such authority may be general or confined to specific instances as the Board of Directors may determine by resolution. All bills, notes, checks or other instruments for the payment of money shall be signed or countersigned by such officer, officers, agent or agents and in such manner as are permitted by these By-laws and/or as, from time to time, may be prescribed by resolution of the Board of Directors. Unless authorized to do so by these By-laws or by the Board of Directors, no officer, agent or employee shall have any power or authority to bind the Corporation by any contract or engagement, or to pledge its credit, or to render it liable peculiarly for any purpose or to any amount.

8.4 Execution and Voting of Securities Owned by Corporation. All stock and other securities of other entities owned or held by the Corporation for itself, or for other parties in any capacity, shall be voted, and all proxies with respect thereto shall be executed, by the person authorized so to do by resolution of the Board of Directors or, in the absence of such authorization, by the Chairman of the Board, the Chief Executive Officer, the President, the Chief Financial Officer, the Treasurer or the Secretary. Certificates for shares of stock or other securities owned by the Corporation shall be executed, signed or endorsed by the person authorized so to do by resolution of the Board of Directors or, in the absence of such authorization, by the Chairman of the Board, the Chief Executive Officer, the President, the Chief Financial Officer, the Treasurer, or the Secretary.

8.5 Fiscal Year. The fiscal year of the Corporation shall be established by resolution of the Board of Directors.

8.6 Corporate Seal. The Corporation seal shall be in such form as may be determined by the Board of Directors. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any manner reproduced.

8.7 Amendment of By-laws. These By-laws may be altered, amended, or repealed and new By-laws adopted at any meeting of the Board of Directors or stockholders at which a quorum is present, by the affirmative vote of a majority of the directors or stockholders, as the case may be, present at such meeting, provided notice of the proposed alteration, amendment, or repeal be contained in the notice of such meeting; provided, however, that in addition to any vote of the holders of any class or series of stock required by law, Sections 2.3, 2.5, 3.3, 3.9, 3.10, 3.11, 3.17 and this Section 8.7 and Article 6 of these by-laws shall not be altered, amended or repealed, and no provision inconsistent therewith shall be adopted, by the stockholders without the affirmative vote of the holders, voting together as a single class, of not less than two-thirds of the outstanding stock of the Corporation entitled to vote in the election of directors.

8.8 Construction. Whenever the context so requires herein, the masculine shall include the feminine and neuter, and the singular shall include the plural, and conversely. If any portion or provision of these By-laws shall be held invalid or inoperative, then, so far as is reasonable and possible (1) the remainder of these By-laws shall be considered valid and operative, and (2) effect shall be given to the intent manifested by the portion or provision held invalid or inoperative.

8.9 Telephone Meetings. Stockholders, directors or members of any committee may hold any meeting of such stockholders, directors or committee by means of conference telephone or similar communications equipment which permits all persons participating in the meeting to hear each other and actions taken at such meetings shall have the same force and effect as if taken at a meeting at which persons were present and voting in person. The Secretary shall prepare a memorandum of the action taken at any such telephonic meeting.

8.9 Captions. The captions used in these By-laws have been inserted for administrative convenience only and do not constitute matter to be construed in interpretation.

Exhibit 5.1

Letterhead of Boylan, Brown, Code, Vigdor & Wilson, LLP

October 16, 2009

Vuzix Corporation
75 Town Centre Drive
Rochester, NY 14623

Ladies and Gentlemen:

We have acted counsel to Vuzix Corporation, a Delaware corporation (the "Company"), in connection with the registration under the Securities Act of 1933, as amended (the "Act") of the offer and sale on a best efforts basis to the public (the "Offering") of up to 50,000,000 shares (the "Shares") of the Company's common stock, $0.001 par value per share (the "Common Stock") and warrants (the "Warrants") to purchase up to 25,000,000 shares of Common Stock (the "Warrant Shares"), on the Company's Registration Statement on Form S-1, Registration No. 333-160417, filed with the U.S. Securities and Exchange Commission (the "Commission") on July 2, 2009 (as amended to date, the "Registration Statement"). The Shares and the Warrants are being offered as units ("Units") and upon closing of the Offering, the Units will separate and the Common Stock and the Warrants will be separately transferrable. The Registration Statement also covers (i) shares of Common Stock (the "Agent Shares") issuable upon exercise of options (the "Agent Options") granted to the Company's agents in the Offering (the "Agents"); (ii) warrants issuable upon exercise of the Agent Options (the "Agent Warrants"); and (iii) shares of Common Stock issuable upon exercise of the Agent Warrants (the "Agent Warrant Shares"), in an amount equal to 12.5% of the aggregate number of shares of Common Stock and Warrants sold in the Offering.

This opinion is being furnished to you in accordance with the requirements of Item 601(b)(5) of Regulation S-K under the Act, in connection with the Company's filing of Amendment No. 3 to the Registration Statement with the Commission on October 16, 2009 and for no other purpose.

In connection with rendering this opinion, we have examined the originals, or certified, conformed or reproduction copies, of all such records, agreements, instruments and documents as we have deemed relevant or necessary as the basis for the opinion hereinafter expressed. In all such examinations, we have assumed the genuineness of all signatures on original or certified copies and the conformity to original or certified copies of all copies submitted to us as conformed or reproduction copies. Insofar as this opinion may relate to securities to be issued in the future, we have assumed that all applicable laws, rules and regulations in effect at the time of such issuance are the same as such laws, rules and regulations in effect as of the date hereof. As to various questions of fact relevant to this opinion, we have relied upon, and assumed the accuracy of, certificates and oral or written statements and other information of or from public officials, officers or representatives of the Company, and others.

Our opinion herein is based solely upon the Delaware General Corporation Law, applicable provisions of the Constitution of the State of Delaware and reported judicial interpretations interpreting these laws. We express no opinion with respect to any other laws (including, without limitation, the application of the securities or "Blue Sky" laws of any state).

Based upon and subject to the foregoing and to the other qualifications and limitations set forth herein, we are of the opinion that:

1. The Shares, when issued and delivered against payment therefor in accordance with the terms of the Registration Statement, and the Warrant Shares and the Agent Warrant Shares, when issued upon the exercise of Warrants and the Agent Warrants in accordance with their respective terms and upon payment of the consideration therefor as provided therein, will be duly authorized, validly issued, fully paid and nonassessable.

2. The Warrants and the Agent Warrants will be validly issued and will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their respective terms when the Warrants and the Agent Warrants have been duly executed and delivered by the Company against payment therefor as described in the Registration Statement.

Our opinion in paragraph 2 is subject to (i) the effect of any applicable bankruptcy, insolvency (including, without limitation, all laws relating to fraudulent transfers), reorganization, moratorium or similar laws affecting creditors' rights generally and (ii) the effect of general principles of equity (regardless of whether considered in a proceeding in equity or at law).

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to this firm under the caption "Legal Matters" in the prospectus forming a part of the Registration Statement. In giving this consent, we do not hereby admit that we are in the category of persons whose consent is required under Section 7 of the Act.

This opinion is furnished to you in connection with the filing of the Registration Statement, and is not to be used, circulated, quoted or otherwise relied upon for any other purpose, except as expressly provided in the preceding paragraph. This opinion is as of the date hereof and we disclaim any undertaking to update this opinion after the date hereof.

Very truly yours,

BOYLAN, BROWN,
CODE, VIGDOR & WILSON, LLP

/s/ Robert F. Mechur
Robert F. Mechur

Exhibit 10.3

VUZIX CORPORATION
INCENTIVE STOCK OPTION AGREEMENT

THIS INCENTIVE STOCK OPTION AGREEMENT (this "Agreement") is entered into as of _____, 20_____(the "Date of Grant") by and between Vuzix Corporation, a Delaware corporation (the "Company"), and [_____] (the "Optionee").

In accordance with the provisions of the Company's 2009 Stock Option Plan (the "Plan"), the Company's Board of Directors ("Board") has authorized the execution and delivery of this Agreement on the terms and conditions herein set forth.

1. Grant. Subject to the terms and conditions of the Plan and this Agreement, the Company hereby grants to the Optionee an Incentive Stock Option (the "Option") to purchase an aggregate of [_____] shares (the "Shares") of the Company's common stock, par value $0.001 per share ("Common Stock"), at an exercise price of $[_____] per share (the "Exercise Price").

2. Exercise Price. The Exercise Price shall be not less than 100% of the Fair Market Value of the Common Stock as of the Date of Grant, as determined in good faith by the Board, provided that, in the event the Optionee owns more than 10% of the combined voting power of all classes of stock of the Company or of a parent or subsidiary of the Company ("Ten Percent Shareholder") at the Date of Grant, then the Exercise Price shall be not less than 110% of the Fair Market Value.

3. Fair Market Value Limitation. The fair market value (determined as of date of grant) of the shares of Common Stock for which Incentive Stock Options are exercisable for the first time by the Optionee in any calendar year (under the Plan or any other plan that provides for the granting of Incentive Stock Options) may not exceed $100,000.

4. Exercise. The Option shall vest and become exercisable as follows:

[insert exercise schedule]

The Option may not be exercised more than ten years after the Date of Grant.

5. Method of Exercise and Payment. To exercise the Option, the Optionee shall deliver to the Company a written notice specifying the number of Shares being purchased accompanied by payment in full of the Exercise Price for the Shares being purchased. The Exercise Price for the Shares purchased upon exercise of the Option shall be payable in full on the exercise date. The method of payment shall be determined by the Administrator at the time of grant from among the following methods (1) payment by cash or check; (2) payment pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board that, prior to the issuance of Common Stock, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds; or (3) any combination of the foregoing methods of payment. Such notice shall be given substantially in the form attached hereto as Exhibit A.

6. Disqualifying Disposition. The Optionee agrees that at the time of any "disqualifying disposition" (within the meaning of Section 422 of the Internal Revenue Code) of the Shares acquired upon exercise of the Option, the Optionee shall pay to the Company (or otherwise make arrangements satisfactory to the Committee for the payment of) the amount of the Federal, state and local and foreign income and employment taxes required, in the Company's sole judgment, to be collected or withheld with respect to the disqualifying disposition of the Shares acquired upon exercise of the Option. Such amount shall be paid to the Company in cash or by the surrender of that number of whole Shares with a Fair Market Value (valued on the date of exercise) as shall be equal to, but does not exceed, the minimum statutory amounts required to be collected or withheld by the Company with respect to the exercise of the Option.

7. Transfer of Option. The Option is not transferable (other than by will or the laws of descent and distribution) by the Optionee and is exercisable only by the Optionee during Optionee's lifetime. The Optionee hereby represents that the Option granted hereunder and the Shares purchased by him pursuant to the exercise of all or any part of this Option are and will be acquired by him for investment and not with a view to the distribution thereof. The Option is granted by the Company in reliance on this representation.

8. Termination for Cause. In the event that the employment or other relationship underlying the issuance of the Option to the Optionee is terminated for cause, the Option shall be forfeited and terminated immediately and may not thereafter be exercised to any extent.

9. Termination other than for Cause, Death, Retirement or Disability. In the event that the employment or other relationship underlying the issuance of the Option to the Optionee is terminated for any reason other than cause, or death, Retirement or Disability of the Optionee at a time when the Optionee is entitled to exercise the Option, such Optionee shall have the right to exercise the Option at any time within three months after such termination only as to those Shares which the Optionee was entitled to purchase immediately prior to such termination, unless the Board shall otherwise provide. The granting of the Option to the Optionee does not alter in any way the Company's right to terminate such person's employment or other relationship at any time for any reason, nor does it confer upon such person any rights or privileges except as specifically provided for in the Plan.

10. Death of Optionee. If the Optionee shall die while in the employ of the Company or within a period of three months after the termination, other than for cause, of Optionee's duties with the Company, at a time when the Optionee is entitled to exercise the Option and Optionee shall not have fully exercised the Option, the Option may be exercised (subject to the condition that no Option shall be exercisable after the expiration of ten years from the date it is granted) at any time within one year after the Optionee's death, by the executors of administrators of the Optionee or by any person or persons who shall have acquired the Option directly from the Optionee by bequest or inheritance.

11. Retirement or Disability of Optionee. If the event of an Optionee's Retirement or Disability at a time when the Optionee is entitled to exercise the Option, then within three months after Retirement or one year after Disability the Optionee may exercise such Option (subject to the condition that no Option shall be exercisable after the expiration of ten years from the date it is granted) only as to those Shares the Optionee was entitled to purchase immediately prior to such Retirement or Disability.

12. Adjustment upon Changes in Capitalization. In the event of a reorganization, recapitalization, stock split, stock dividend, stock distribution, combination, merger, consolidation, rights offering, or any other change in the corporate structure or the Common Stock, the Board shall make such adjustment, if any, as it may deem appropriate in the number and kind of Shares covered by the Option and in the Exercise Price. Any such adjustment may provide for the elimination of any fractional Shares which otherwise might become subject to the Option without payment therefor.

13. Modification, Extension and Renewal of Option. Subject to the terms and conditions and within the limitations of the Plan, the Board may modify, extend or renew the Option or accept the surrender of the Option (to the extent not theretofore exercised) and authorize the granting of new options under the Plan in substitution therefor.

14. General Restriction. If at any time the Board in its discretion shall determine that the listing, registration or qualification of the Shares on any securities exchange or under any state or federal law, or the consent or approval of any government regulatory body is necessary or desirable as a condition of, or in connection with, the granting of the Option or the issuance or purchase of Shares, the Option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board of Directors.

15. Sale or Transfer of Shares. Unless a registration statement covering the sale and issuance of the Shares is then in effect, when issued upon exercise of the Option, the Shares will not have been registered for sale under the Securities Act of 1933, as amended (the "Act"), or any applicable state securities laws. In that case, the Shares may not be sold, offered for sale, pledged or hypothecated in the absence of an effective registration statement under the Act or, in the absence thereof, an opinion of counsel obtained, satisfactory to the Company, that an exemption from such registration is available and the certificate issued to evidence the Shares shall bear an appropriate legend summarizing these restrictions on the disposition thereof.

16. Amendment. The Board may modify or amend the Option if it determines, in its sole discretion, that amendment is necessary or advisable in the light of any addition to or change in the Internal Revenue Code or in the regulations issued thereunder, or any federal or state securities laws or other law or regulation, which change occurs after the Date of Grant and by its terms applies to the Option. No amendment of the Option, however, may, without the consent of the Optionee, make any changes which would adversely effect the rights of the Optionee.

17. No Right of Employment. Nothing contained herein shall confer upon the Optionee any right to be continued in the employment of the Company or interfere in any way with the right of the Company to terminate his employment at any time for any reason or for no reason.

18. Miscellaneous.

(a) Governing Law; Forum. This Agreement shall be governed by the laws of the State of Delaware, notwithstanding any rules regarding choice of law to the contrary of the law of the State of Delaware. Jurisdiction over and venue of any suit arising out of or related to this Agreement shall be exclusively in the state and federal courts sitting in Suffolk County, Massachusetts, and the parties hereby waive any right to object to personal jurisdiction and venue.

(b) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of any successor or assignee of the Company and to any executor, administrator, legal representative, legatee, or distributee of the Optionee.

(c) No Third Party Beneficiary. This Agreement is intended solely for the benefit of the parties hereto and does not create or grant any right in a person or entity who is not party to this Agreement.

(d) Severability. If one or more provisions in this Agreement is held or found to be invalid, illegal or unenforceable in any respect, the provision(s) shall be given effect to the extent permitted by law and the invalidity, illegality or unenforceability shall not affect the validity of the remaining provisions of this Agreement.

(e) Entire Agreement. This Agreement contains the entire understanding between the parties with respect to the subject matter hereof and supersedes any prior written or oral agreement between the parties with respect to the subject matter hereof. This Agreement shall be considered as drafted equally by the parties and any ambiguity shall not be construed against any party.

(f) Counterparts. This Agreement may be executed in several counterparts, and all so executed shall constitute one agreement, binding on all of the parties hereto, notwithstanding that all of the parties are not signatories to the original or the same counterpart.

(g) Interpretations of this Agreement. All decisions and interpretations made by the Board with regard to any question arising hereunder or under the Plan shall be binding and conclusive on the Company and the Optionee.

(h) The Plan. The Optionee acknowledges having received a copy of the Plan. The Option is subject to the provisions of the Plan, all of which are hereby incorporated herein by reference. In the event there is any inconsistency between the provisions of this Agreement and those of the Plan, the provisions of the Plan shall govern. Capitalized terms used in this Agreement and not otherwise defined herein have the meaning ascribed to them in the Plan.

[*remainder of this page intentionally left blank*]

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed in its behalf by it duly authorized officer, to be effective on the day and year written above.

VUZIX CORPORATION

By: _____

Name:

Title:

I, _____, hereby certify that I have read and fully understand the foregoing Incentive Stock Option Agreement. I acknowledge that I have been apprised that it is the intent of the Company that I obtain and retain an equity interest in the Company. I hereby execute this Agreement to indicate my acceptance of the Option and my intent to comply with the terms of this Agreement.

_____

Optionee

_____

Street Address

_____

City State Zip

Exhibit A

_____ ___, 20_____

Vuzix Corporation
75 Town Centre Drive
Rochester, NY 14623
Attention: Secretary

Dear Sir or Madam:

This is to notify you that I hereby elect to exercise my option to purchase _____ shares of the common stock, par value $0.001 per share, of Vuzix Corporation (the "Company") granted to me pursuant to the Company's 2009 Stock Option Plan and the Incentive Stock Option Agreement (the "Agreement") dated as of _____, 2009. The Exercise Price pursuant to the Agreement, as adjusted, is $_____ per share or $_____in the aggregate.

In payment of the full purchase price, I enclose my check in the sum of $_____.

Very truly yours,

_____

CERTAIN CONFIDENTIAL PORTIONS OF THIS EXHIBIT WERE OMITTED AND REPLACED WITH "[***]". A COMPLETE VERSION OF THIS EXHIBIT HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO AN APPLICATION REQUESTING CONFIDENTIAL TREATMENT UNDER RULE 406 OF THE SECURITIES ACT OF 1933.

TECHNOLOGY PURCHASE AND ROYALTY AGREEMENT

This Technology Purchase and Royalty Agreement (the "Agreement") is entered into as of the 23rd day of December, 2005, by and between ICUITI CORPORATION, a Delaware corporation ("Buyer"), having its principal place of business at 2166 Brighton Henrietta Townline Road, Suite B, Rochester, New York, 14623, and NEW LIGHT INDUSTRIES, LTD., a Washington State corporation ("Seller"), having its principal place of business at 9715 West Sunset Highway, Spokane, Washington, 99224.

RECITALS

WHEREAS, Seller has developed and is the rightful owner of certain improvements in Video Image Viewing Devices and Methods, including but not limited to technology, know-how including the Patents and certain other patents and patent applications, if any, the prototypes, drawings, designs, diagrams, computer programs and their sources, design assurance data and other tangible technical information used by Seller in connection with the Patents;

WHEREAS, Buyer desires to acquire all of Seller's right, title and interest in and to the Intellectual Property on the terms and conditions set forth in this Agreement;

WHEREAS, Seller is willing to sell, exclusively to Buyer, Seller's right, title and interest in and to the Intellectual Property on the terms and conditions set forth in this Agreement;

NOW, THEREFORE, in consideration of the foregoing, the mutual promises and agreements below, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

SECTION 1: DEFINITIONS

1.1 "Agreement". This Technology Purchase and Royalty Agreement, the preamble and all exhibits and schedules thereto.

1.2 "Buyer's Agents". The term Buyer's Agents" means all of Buyer's officers, directors, shareholders, partners, employees, independent contractors and other agents.

1.3 "Component Cost". The term "Component Cost" means (a) the manufacturing cost as manufactured by Buyer or (b) the actual cost to Buyer if sourced from a third party or (c) in the case of Products manufactured by an Original Equipment Manufacturer (OEM) or supplier thereof, the manufacturing cost of such OEM or the actual cost to such OEM, if sourced from third party) of [*********** ** *******************]. All costs will be calculated in accordance with Generally Accepted Accounting Principles (GAAP), and are to exclude

any overhead or other indirect cost allocations, but shall include all direct costs of manufacture.

1.4 "Improvements". All improvements, enhancements or modifications (including derivative works) to the Intellectual Property or Related Inventions made by either party during the term of this Agreement.

1.5 "Intellectual Property". The term "Intellectual Property" is defined in Schedule A.

1.6 The "Patents". The term "Patents" is defined in Schedule A.

1.7 "Payment Date". The term "Payment Date" means the date that is forty five (45) days after the close of each Payment Period.

1.8 "Payment Period". The term "Payment Period" means the periods ending on June 30th and December 31st of each year.

1.9 "Products". Head-mounted display products sold by or on behalf of Buyer, Buyer's licensees or Buyer's transferees that incorporate the Intellectual Property and that are sold by or on behalf of Buyer, its licensee and its transferees.

1.10 "Related Inventions". All Improvements, inventions, formulae, processes, techniques, know-how and data, whether or not patentable or copyrightable, made or conceived or reduced to practice or learned by them, either alone or jointly with others, prior to or during the Term of this Agreement which are directly related to the Intellectual Property, or which result from or are conceived during the performance of tasks by Seller for Buyer.

1.11 "Seller's Agents". The term "Seller's Agents" means all of Seller's officers, directors, shareholders, partners, employees, independent contractors and other agents.

1.12 "Successful Commercialization". The term "Successful Commercialization" means cumulative sales of all products incorporating any of the Intellectual Property exceed [*******] pieces within [*********].

1.13 "Video Image Viewing Devices and Methods". Methods and techniques that are used or usable for the viewing of video images, and devices that can be employed to view such images.

SECTION 2: ACQUISITION OF THE INTELLECTUAL PROPERTY

2.1 TRANSFER OF PROPERTY

2.1.1 ACQUISITION. Subject to the terms and conditions hereof, on the Closing Date, Seller shall sell, transfer, assign and convey exclusively to Buyer, and Buyer shall purchase from Seller, free and clear of all liens, claims and encumbrances, all of Seller's right, title and interest

in and to all of the Intellectual Property in consideration for the performance by Buyer of its obligations under this Agreement.

2.1.2 CASH CONSIDERATION.

(a) As partial consideration for the transfer of the Intellectual Property to Buyer, Buyer will pay to Seller the sum of [**********] Dollars ($[******]) (the "Cash Payment").

(b) The Cash Payment shall be paid as follows:

i. An amount of [**********] Dollars ($[******]), which shall be paid upon execution and delivery of this Agreement by Seller. Such payment shall be nonrefundable unless (a) Seller shall fail or refuse to consummate the Transfer of the Intellectual Property to Buyer, other than because any of the representations or warranties of the Buyer contained in this Agreement shall not be true and correct, or (b) Buyer shall fail to consummate the transactions hereby because any of the representations or warranties of the Seller contained in this Agreement shall not be true and correct.

ii. The balance of [**********] Dollars ($[******]) shall be paid at Closing or within 30 days of the date of this Agreement, whichever is later.

2.1.2 EQUITY CONSIDERATION.

(a) As partial consideration for the sale of the Intellectual Property, Buyer will issue to Seller a Warrant to purchase 1,000,000 shares of the Buyer's Common Stock at an exercise price of $0.01 per share. The Warrant shall be exercisable at any time through and including December 31, 2015. The number of shares that can be purchased pursuant to, and the purchase price per share under, the Warrant shall be subject to equitable adjustment for stock splits, stock dividends and similar events. The Warrant will vest immediately upon Closing as to 250,000 shares, and as to an additional 250,000 shares on each of December 31, 2006, December 31, 2007 and December 31, 2008. The full terms and conditions of the Warrant are contained in Schedule C, attached hereto.

(b) If it is determined by the Buyer, in its sole discretion, that Buyer cannot achieve Successful Commercialization, the Buyer may (at its sole option and election) give notice to the Seller to that effect and, in such event, the Warrant will terminate as to any portion thereof that has not vested as of the date of such notice. In the event such a notice is given by the Buyer, then (a) Seller shall have a perpetual, fully paid, royalty free, non-exclusive world wide license to the original Intellectual Property that is transferred to the Buyer pursuant to the terms of this Agreement, with rights to sublicense the original Intellectual Property and (b) Seller shall have a perpetual, nonexclusive worldwide license to the

Improvements and to all improvements, enhancements or modifications (including derivative works) to the Intellectual Property or Related Inventions made by Steven McGrew (the "McGrew Improvements") pursuant to a Consulting Agreement between Buyer and Mr. McGrew dated the same date as the date of this Agreement, provided that Seller shall pay Buyer a royalty on any head-mounted display products sold by or on behalf of Buyer, Buyer's licensees or Buyer's transferees that incorporate the Improvements or the McGrew Improvements, at the same rate and in the same manner as royalties are payable by Buyer with respect to Products as provided in Section 2.1.3 (it being understood that, for these purposes, the relevant "years" in Section 2.1.3(e) shall commence on the date that such license to Seller of the Improvements and the McGrew Improvements commences). Notwithstanding the foregoing, Buyer shall continue to be required to pay Continuing Royalties as provided in Section 2.1.3 of this Agreement.

2.1.3 CONTINUING ROYALTIES.

(a) Buyer shall pay Seller royalties (the "Continuing Royalties") on the Component Cost of all Products that incorporate or use the Intellectual Property.

(b) Buyer shall have no further obligation to pay Continuing Royalties to Buyer on Products that are sold after the date on which the last Patents expires or is finally determined by the United Sates Patent Office or a court of competent jurisdiction to be invalid.

(c) There will be a cap of $[******] on Continuing Royalties with respect to sales of Products in [********]. No further Continuing Royalties will accrue in [********] after a total of $[********] Continuing Royalties is payable with respect to each [********].

(d) For avoidance of doubt, the Continuing Royalty will payable with respect to all sales of Products including government sales and sales into countries where the Intellectual Property has no patent protection.

(e) The Continuing Royalty rates for each of the calendar years following Successful Commercialization of the Intellectual Property by Buyer are as follows:

- Year [**] [***]% of Component Cost of display module
- Year [**] [***]% of Component Cost of display module
- Year [**] [***]% of Component Cost of display module
- Year [**] [***]% of Component Cost of display module
- Year [**] [***]% of Component Cost of display module
- Year [**] to [********] $[***] per display module

A display module is considered to be the set of components for displaying an image to one eye, so binocular eyeglasses would be considered to comprise two display modules. All Continuing Royalties on sales of products before Successful Commercialization are to be calculated at a rate of [***]% of Component Costs.

(f) Continuing Royalties shall be paid by Buyer to Seller for each Payment Period no later than the Payment Date.

(g) Buyer shall tender payments of the Continuing Royalties due on each Payment Date by wire transfer to such account or accounts as Seller may designate in advance.

(h) Buyer shall pay the Continuing Royalties in US Dollars. Conversion of other currencies to US Dollars will be made based on conversion rates published in the Wall Street Journal on the last day of each Payment Period.

(i) Buyer's obligation to pay Continuing Royalties to Seller shall terminate upon expiration of the last Patents or upon it being deemed invalid by the US Patent Office (or the applicable patent authority in another country).

(j) Interest shall accrue on the unpaid balance of any Continuing Royalties at the rate of one percent (1%) per month that the accrued Continuing Royalty remains unpaid.

2.2 CLOSING.

(a) The closing (the "Closing") of the transactions contemplated by this Agreement will take place at the offices of Buyer, on the date (the "Closing Date") on which this Agreement is executed by the parties hereto or at such later date and/or other place as the parties shall mutually agree upon.

(b) At the Closing, Seller shall deliver to Buyer duly executed general bill of sale and assignment of the Intellectual Property and any other documents of transfer reasonably requested by Buyer necessary to convey all of Seller's right, title and interest in and to the Intellectual Property to Buyer, in recordable form, if required.

(c) At the Closing, the Buyer shall deliver to Seller (i) the balance of the Cash Payment (if it is then due in accordance with the provisions of Section 2.1.2 (b)(ii) and (ii) the Warrant, duly executed on behalf of the Buyer.

(d) At the Closing, the parties shall execute and deliver to each other the Rights Agreement in the form of Exhibit D to this Agreement and the Consulting Agreement in the form of Exhibit E to this Agreement.

2.3 FURTHER ASSURANCES. At any time and from time to time after the Closing Date and after the delivery of all of the initial documents and necessary information that comprise the Intellectual Property, at Buyer's request and approved expense, and subject to the terms of this Agreement, Seller promptly shall execute and deliver, and shall cause its officers,

directors, shareholders, consultants, affiliates and employees to execute and deliver, such instruments of sale, transfer, conveyance, assignment and confirmation, and take such other action, as Buyer may reasonably request to more effectively transfer, convey and assign to Buyer, and to confirm Buyer's title to, all of the Intellectual Property, including providing to Buyer an executed assignment to Buyer, recordable in the appropriate regional or national patent office, for each patent and patent application within the Intellectual Property (including patent and patent applications hereafter filed with respect to the inventions included within the Intellectual Property), to assist Buyer in exercising all rights with respect thereto and to carry out the purpose and intent of this Agreement.

2.4 RESTRICTION ON TRANSFER OF THE INTELLECTUAL PROPERTY.

2.4.1 Buyer may freely license, sublicense assign, sell or otherwise transfer the Intellectual Property, in whole or in part, and shall be entitled to freely exercise all incidents of ownership thereof, subject to the provisions of this Agreement.

2.4.2 If Buyer shall transfer the Intellectual Property to a third party, then

(a) The proposed transferee must assume in writing all of Buyer's obligations under this Agreement, including any of Buyer's obligations that arose prior to the effective date of Transfer.

(b) The proposed transferee's assumption of Buyer's obligations under this Agreement will not relieve Buyer of any liability which Buyer has to Seller under this Agreement for the failure of Buyer to perform all of Buyer's obligations under this Agreement, unless, at Buyer's request, Seller approves of transferee, which approval shall not be unreasonably withheld, and all of Buyer's obligations and liabilities are then transferred to transferee.

2.4.3 Nothing in this Section 2.4 is meant, or shall be construed, to limit Buyer's right to exploit the Intellectual Property as described in Section 2.1.1 hereof.

3. TECHNICAL SUPPORT AND PERSONNEL.

3.1 In order to facilitate the exploitation of the Intellectual Property by the Buyer, from time to time as shall be coordinated between the Buyer and Seller, at the Buyer 's request and subject to Seller's available manpower and facilities, Seller shall provide the Buyer with: (i) technical support, such as Seller's available lab work space, manpower, (for which the Buyer shall pay according to Seller's standard third party hourly rates, it being understood that — Seller's standard rates at the time of Closing are $45 to $50 per hour for lab time and $100 to $125 per hour for engineering/consulting services and that such rates are subject to future adjustments within reasonable industry limits) laboratories, apparatus and other required equipment; (ii) consulting services and reasonable assistance in technical guidance and instructions regarding the Intellectual Property and its ongoing development in order to fully transfer the Intellectual Property to Buyer and as shall be required for the Buyer's technical staff

to fully understand the Intellectual Property so as to enable Buyer to complete Successful Commercialization of the Intellectual Property.

3.2 The Buyer is to retain for a twelve (12) month period immediately following the Closing of this Agreement, the Seller's President, Steve McGrew, (McGrew) as a sub-contractor for providing research, development or prototype manufacturing services to the Buyer in connection with the development of the Intellectual Property for Successful Commercialization, (the "Services"). McGrew (or the Seller if so specified) is to be paid five thousand dollars ($5,000) per month for these Services. The terms and conditions under which McGrew is to be retained shall be those contained in the Consulting Agreement attached as Exhibit E.

3.3 OPTION FOR FURTHER SERVICES. After the first 12 months from Closing, Buyer will have the option for each of a further 4 years (subject to 90 days advance notice) to retain McGrew as a consultant at an annual rate of $50,000, to support Buyer's technical, commercial and strategic efforts at up to one week per month, with all pre-approved travel and expenses to be paid by Buyer. The terms and conditions under which McGrew may be so retained shall be those contained in the Consulting Agreement attached as Exhibit E.

3.4 DISCLOSURE OF RELATED INVENTIONS. Seller and Seller's Agents will promptly disclose to Buyer, or any person designated by Buyer, all Related Inventions or Improvements. Seller's obligations under this Section 3.4 shall terminate on the date on which Buyer gives a notice pursuant to 2.1.2(b). This section 3.4 shall not be interpreted as requiring Seller to disclose any intellectual properties acquired or developed by Seller on or after such termination date pursuant to notice under Section 2.1.2(b); nor shall this section 3.4 or any part of this Agreement be interpreted as requiring Seller to disclose or transfer any inventions, formulae, processes, techniques, know-how, data or improvements that are not directly related to the original Intellectual Property, any Improvements, or Related Inventions.

3.5 OWNERSHIP OF INVENTIONS. All Related Inventions and Improvements shall be the sole property of Buyer and its successors and assigns; and Buyer and its successors and assigns shall be the sole owner of all patents, copyrights and other rights in connection therewith. Seller (including Seller's Agents), hereby assigns to Buyer any and all rights either of them may have or acquire in all Related Inventions and Improvements, and agree to cause their respective officers, directors, affiliates, consultants, agents and employees to assign all Related Inventions and Improvements made by them in the course of their employment with, or their rendering of services to, Seller, Seller's Agents or their affiliates. Seller further agrees, and agree to cause their respective officers, directors, affiliates, consultants, agents and employees to assist Buyer in a reasonable manner (but at Buyer's expense) to obtain, amend, protect and enforce any patents or copyrights of the Inventions in any and all countries that may be selected by Buyer, in its sole discretion, and to that end each of them will, and will cause their respective officers, directors, affiliates, consultants, agents and employees to, execute all documents for use in applying for and obtaining such patents thereon and enforcing the same, as Buyer may desire, together with any assignments thereof to Buyer or persons designated by it. Seller's obligation to assist Buyer in obtaining and enforcing patents for the Related Inventions and Improvements in any and all countries shall continue beyond the termination of his engagement or his work on matters related to Buyer's operations. However, Buyer shall have no rights in any Related Inventions conceived

by Seller or Seller's Agents subsequent to any notice pursuant to 2.1.2(b) or other termination of this Agreement.

SECTION 4: FINANCIAL CONTROLS AND AUDIT

4.1 FINANCIAL RECORDS.

4.1.1 Buyer at Buyer's expense shall maintain such financial records as may be necessary or appropriate to evidence the amounts due Seller under this Agreement. To this end, Buyer shall establish and/or maintain an appropriate financial system for its books and records, to ensure that the relevant data is gathered and maintained completely and accurately.

4.1.2 Buyer shall preserve and safeguard its financial records for no less than five (5) years following the applicable Payment Period.

4.2 STATEMENT TO ACCOMPANY CONTINUING ROYALTIES. At the time Buyer pays the Continuing Royalties, it shall provide Seller with a detailed calculation as to the amount being paid. Seller shall use this information solely for the purpose of determining royalties owed by Buyer to Seller and shall treat the information, other than that concerning the amount being paid to Seller, as Buyer's Confidential Information.

4.3 AUDIT RIGHTS.

4.3.1 Subject to the provisions of Section 5, Seller may (either directly or through Seller's Agents) inspect Buyer's books and records during the term of this Agreement and for a period two (2) years thereafter, to review and analyze the relevant records of Buyer, for purposes of determining whether Buyer has complied with its financial obligations under this Agreement, and with its specific duty to pay the Continuing Royalties. Seller will give Buyer at least ten (10) business days notice prior to any inspection. Seller (either directly or through Seller's Agents) will conduct its inspection during normal business hours at such time as the parties may agree.

4.3.2 Audits under this Section 4 may take place no more frequently than once with respect to any Payment Period. In the event the annual maximum Continuing Royalty ($[**********]) has been paid for any Payment Period, then there shall be no audit by the Seller covering that Payment Period.

4.3.3 Any such audit shall be conducted at Seller's expense. In the event it is determined as a result of such audit that Buyer has underpaid or under-reported the Continuing Royalties due to Buyer by more than seven point five percent (7.5%) with respect to any Payment Period, Buyer will be required to reimburse Seller promptly for the costs of the audit, all unpaid and overdue Continuing Royalties, plus pay accrued interest under Section 2.1.3(j) and a twenty percent (20%) penalty on any such unpaid Continuing Royalties. If such audit discloses that Buyer overpaid any Continuing Royalty, Seller shall pay the amount of such overpayment to Buyer promptly.

4.3.4 All information obtained in connection with or as a result of such audit shall be Confidential Information within the meaning of Section 5.

SECTION 5: CONFIDENTIAL INFORMATION

5.1 CONFIDENTIAL INFORMATION.

5.1.1 For so long as this Agreement remains in effect and for a period of five (5) years following the termination hereof, the Seller shall maintain and shall cause Seller's Agents to maintain in confidence the Intellectual Property and such other confidential information (including Improvements and Related Inventions) of the Buyer that is disclosed to it (collectively, the "Confidential Information"), and shall not disclose, use or grant the use of the Confidential Information, except on a need-to-know basis to such Seller's directors, officers, employees, consultants and collaborators, and to other parties, to the extent such disclosure is reasonably necessary or required in connection with the providing of services or products to the Buyer or other of Seller's activities that are expressly authorized by this Agreement. To the extent that disclosure by the Seller to any person is authorized by this Agreement, prior to disclosure, the Seller shall obtain written agreement of such Person to hold in confidence and not disclose, use or grant the use of the Confidential Information of the Buyer except as expressly permitted under this Agreement. The Seller shall notify the Buyer promptly upon discovery of any unauthorized use or disclosure of Confidential Information. Upon the written request of the Buyer, expiration or earlier termination of this Agreement, the Seller shall return to the Buyer all tangible items regarding the Confidential Information of the Buyer and all copies thereof.

5.1.2 Confidential Information shall not include information that

(i) can be shown by the receiving party to have been in its possession prior to receipt thereof from the disclosing party (provided, that such exclusion shall not apply to the knowledge of Seller or Seller's agents of any information with respect to the Intellectual Property);

(ii) is now or hereafter becomes information in the public domain through no act or failure to act by the receiving party;

(iii) can be shown by the receiving party to have been subsequently lawfully received by the receiving party on a nonconfidential basis from a third party having the right to disclose it; or

(iv) can be shown by the receiving party to have been independently developed by the receiving party before the receiving party had access to the Confidential Information received from the disclosing party.

(v) is disclosed as required under any applicable law.

5.1.3 The burden of proof that any disclosure falls within any of the aforesaid exclusions shall be on the recipient. Where a doubt exists, as to whether any of the aforesaid

exclusions apply, the party seeking to disclose shall give the other party a written notice and, if a dispute arises, then such party shall keep such information confidential until the dispute is settled or resolved in an appropriate court of law, subject to any temporary relief which the party seeking the disclosure shall be entitled to apply for to such court.

SECTION 6: INDEMNIFICATION

6.1 INDEMNIFICATION OF SELLER. Buyer shall indemnify, hold harmless and defend Seller and Seller's Agents and affiliates from and against any and all liability, loss, damages, claims, causes of action and expenses associated with them (including reasonable attorneys' fees) caused or asserted to have been caused, directly or indirectly by or as a result of any acts or omissions of Buyer and Buyer's Agents and affiliates in connection with this Agreement, and with regard to any and all claims relating or arising from this Agreement or the Intellectual Property.

6.2 INDEMNIFICATION OF BUYER. Seller shall indemnify, hold harmless and defend Buyer and Buyer's Agents and affiliates from and against any and all liability, loss, damages, claims, causes of action and expenses associated with them (including reasonable attorney's fees) caused or asserted to have been caused, directly or indirectly by or as a result of any acts or omissions of Seller and Seller's Agents and affiliates in connection with this Agreement, and with regard to any and all claims relating or arising from this Agreement or the Patent; except that any and all obligations and liabilities with respect to claims for infringement which occur after Closing shall be the sole responsibility of Buyer. In the event that it is determined that use of the Patents infringes third party patents, the Buyer may offset fifty (50%) of any amounts of such third party royalties Buyer is required to pay, as a credit against the Continuing Royalties it is required to pay under Section 2 of this Agreement. However, any such offset shall not be retroactive nor require Seller to refund royalties already paid by Buyer to Seller.

6.3 LIMITATION OF LIABILITY. It is understood and agreed that neither party to this Agreement shall be liable for any negligent or wrongful acts, either of commission or omission, chargeable to the other, unless such liability is imposed by law and that this Agreement shall not be construed as seeking to either enlarge or diminish any obligation or duty owed by one party against the other or against a third party.

6.4 SETTLEMENT OF LIABILITY. Neither the Buyer or Seller be shall required to indemnify the other unless, (1) the party requesting indemnification promptly notifies the other party in writing of any such claim (provided, however, that the failure to give prompt notice of any claim shall relieve the indemnifying party of its indemnification obligation only to the extend that the failure to give such notice impairs the ability of the indemnifying party to defend against such claim); (2) cooperates fully with the indemnifying party, and grants the indemnifying party sole control of the defense or settlement; and (3) is in complete compliance with this Agreement. The party seeking indemnification shall not adjust, settle or compromise any claim, suit, action or other proceeding brought against it to which the indemnity set forth herein applies without the prior written consent of the other party which consent shall not be unreasonably withheld.

SECTION 7: PATENTS; INFRINGEMENT

7.1 MAINTENANCE OF PATENTS.

(a) Buyer shall be responsible, until the termination of this Agreement, for preparing, filing, prosecuting and maintaining all existing Patents and patent applications having at least one claim that covers any part of the Intellectual Property. All expenses relating to the preparation, filing, prosecution and maintenance of such Patents and patent applications will be paid by Buyer. Seller shall (and shall cause Seller's agents to) cooperate with Buyer in the preparing, filing, prosecuting and maintaining all existing Patents and patent applications in all such respects as Buyer may reasonably request, in which event Buyer shall reimburse Seller for all out-of-pocket expenses incurred by Seller or Seller's Agents in connection with such cooperation.

(b) Buyer shall not be responsible for preparing, filing, prosecuting or maintaining any Patent or patent application that has no claim that covers the Intellectual Property.

(c) Buyer shall inform Seller of all activities with respect to prosecution and maintenance of any Patent or patent application and shall provide to Seller copies of all office actions and other communications concerning such within thirty (30) days after receipt thereof.

(d) In the event that Buyer decides to cease maintaining or defending the Patents, or fails to pay maintenance fees or carry out other actions necessary to maintain the validity and enforceability of the Patents, then before the abandonment of any Patent, the Buyer shall notify the Seller of its intent to do so. In such event, Seller may request the immediate transfer of the ownership of the applicable Patent back to Seller. In the event that ownership reverts back to the Seller and the applicable Patent is still deemed to be valid and enforceable, the Buyer shall still retain an irrevocable, worldwide, non-exclusive, perpetual license, subject to the payment of Continuing Royalties under this Agreement, and the Seller shall execute all such documents as the Buyer may reasonably request to evidence and perfect such license.

7.2 PATENT APPLICATIONS ON IMPROVEMENTS.

Buyer shall have the exclusive right to prepare and file patent applications for Improvements or Related Inventions developed by Buyer, Seller or Seller's Agents, in such jurisdictions and in such manner as it shall determine, and shall prosecute such applications as it deems appropriate, and the Seller shall provide Buyer, at Buyer's expense (out of pocket only), with any reasonable assistance therefore as Buyer may request. All such applications shall be filed and prosecuted in the name of Buyer and at its expense.

7.3 THIRD PARTY PATENT INFRINGEMENT.

(a) BUYER'S RIGHTS. If, at any time during the term hereof, either party shall become aware of any infringement or threatened infringement of the Patents in a jurisdiction where the patents are valid, the party having the knowledge thereof shall forthwith give notice to the other party. Buyer or its designee shall determine within 120 days of notice whether or not to

prosecute such alleged infringement and to assert its rights in the Patents against such infringer, in which event Buyer or its designee shall bear all costs and expenses of any actions and enjoy all benefits of damages, proceeds or awards rendered in any such action; provided, however, that Buyer will pay Seller a reasonable, and equitable portion of any amount so awarded, (net of Buyer's costs and subject to this Agreement's annual Continuing Royalties caps) which payment shall be credited against royalties due and that shall become due under this Agreement in lieu of sublicense royalties. In such event, Seller shall (and shall cause Seller's Agents to) give Buyer or its designee all reasonable assistance requested by Buyer. Buyer shall reimburse Seller and Seller's agents for all out of pocket expenses incurred by them in rendering such cooperation. Seller agrees that Seller will be joined in such suit if Seller is determined to be a necessary party.

(b) Should Buyer not determine or determine not to initiate any action against the alleged infringer within the above 120 days, Seller shall have the right to assert, at its own expense, the Intellectual Property and shall be entitled to any and all recoveries therein. In the event that an action for infringement may only be asserted in a particular jurisdiction in Buyer's name, then Buyer agrees that it will bring such an action at Seller's or its designee's request. Seller or its designee shall pay all of the costs and expenses of such action and enjoy all benefits of damages, proceeds or awards rendered in any such action: Seller or its designee shall have the right to control such litigation with counsel reasonably acceptable to Buyer selected by Seller or its designee. Buyer shall have the right to participate in such litigations with counsel of its own selection, at Buyer's expense.

SECTION 8: REPRESENTATIONS AND WARRANTIES

8.1 OWNERSHIP. Seller represents and warrants that (i) it is the sole, exclusive, true and lawful owner, inventor, and developer of the Intellectual Property, free and clear of all liens and encumbrances of any kind; (ii) it has the right to Transfer to Buyer good, clear, record and marketable title to the Intellectual Property as contemplated herein free and clear of all liens and encumbrances of any kind; (iii) none of the Intellectual Property has been assigned, transferred or licensed to or from any third party; and (iv) the validity or enforceability of the Intellectual Property has not been challenged by others in any proceeding or dispute about which Seller has received notice or of which the Seller is aware, nor is there any pending or, to the best of Seller's knowledge, threatened litigation or proceeding challenging Seller's right to use, or to convey to Buyer the right to use, any of such Intellectual Property.

8.2 BUYER'S RIGHT TO EXPLOIT. Neither the execution and delivery of this Agreement nor, to Seller's best knowledge, the use by the Buyer of the Intellectual Property, shall violate or infringe the rights of any other person, firm or entity, nor will such actions interfere with the Buyer's use of the Intellectual Property as contemplated by this Agreement, and the execution, delivery or performance by Seller of this Agreement will not constitute a breach of any law, agreement or instrument to which Seller is a party or by which it is bound.

8.3 MATERIALS TO EFFECT. In order to give full effect to this transaction, Seller shall deliver to the Buyer, together with this Agreement, the GLOBAL PATENT ASSIGNMENT, duly signed by Seller. Seller agrees to execute, and to cause Seller's agents to execute, upon the request of the Buyer such additional instruments, applications, declarations and forms, as may be

necessary under any relevant law or as may be required by any official or authority, to continue, secure, defend, register and otherwise give full effect to, and perfect the rights of the Buyer under the Global Patent Assignment in the Patents, including to register the assignment of each Patent in the name of the Buyer.

8.4 FILES. Seller has used its diligent and reasonable efforts to provide to Buyer all existing files and records pertaining to the Intellectual Property, including, but not limited to, all office actions, drafts, receipts, drawings, correspondence, disclosures, models, copies, prototypes, diagnostic reports, test results, opinions, prior art (including search results, publications and copies of patents, if any) and analyses (collectively, the "Files"). To the extent that any Files have not been provided to Buyer as of the Closing Date, Seller shall, upon the first to occur of the request of Buyer or discovery that such Files have not been provided, provide such Files to Buyer, at no charge to Buyer.

8.5 AUTHORITY. Seller and Buyer each represent and warrant that each has the authority to execute this Agreement and to perform all the functions necessary to effect the transactions contemplated herein and that this Agreement has been duly authorized and is a valid and binding obligation of such party enforceable against such party in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws related to or affecting creditors rights generally.

8.6 USE OF INTELLECTUAL PROPERTY. Seller warrants that the Intellectual Property constitutes all technology and knowhow possessed by Seller that is relevant to eventual Successful Commercialization of the Intellectual Property, and that no further licenses from the Seller are necessary for Successful Commercialization of the Intellectual Property.

8.7 AUTHORIZATION OF WARRANT AND WARRANT SHARES. Buyer represents and warrants that Buyer has all necessary corporate power and authority to issue and sell the Warrant and the shares of its Common Stock for which the Warrant may be exercised (the "Warrant Shares") The issuance, sale and delivery of the Warrant in accordance with this Agreement and the issuance and delivery of the Warrant Shares upon exercise of the Warrant have been duly authorized by all necessary corporate action on the part of the Buyer. Sufficient authorized but unissued shares of Common Stock have been reserved by appropriate corporate action in connection with the prospective exercise of the Warrant at the applicable exercise price. The Warrant Shares, when issued, sold and delivered upon exercise of the Warrant will be duly and validly issued, fully paid, non-assessable and are not subject to preemptive rights or other preferential rights in any present or future stockholders of the Buyer, will not be subject to any lien, and will not conflict with any provision of any agreement or instrument to which the Buyer is a party or by which it or its property is bound.

8.8 SECURITIES REPRESENTATIONS OF SELLER: In connection with the acquisition of the Warrant by Seller and the acquisition of the Warrant Shares upon the exercise of the Warrant, the Seller represents to the Buyer that:

8.8.1 The Seller is an "accredited investor" as that term is defined in Rule 501 promulgated by the Securities and Exchange Commission (the "SEC") pursuant to the Securities Act of 1933, as amended.

8.8.2 The Securities are being acquired for the Seller's own account, for investment and not with a view to, or for resale in connection with, any distribution thereof within the meaning of the Securities Act or the securities laws of any other state applicable to the Seller. The Seller understands that the Securities have not been registered under the Securities Act by reason of their issuance in a transaction exempt from the registration and prospectus delivery requirements of the Securities Act pursuant to Section 4(2) thereof, which exemption depends upon, among other things, the bona fide nature of the Seller's investment intent expressed herein, that the Company has no present intention of registering the Securities, and that the Securities must be held by the Seller indefinitely unless a subsequent disposition thereof is registered under the Securities Act or is exempt from registration.

8.8.3 During the negotiation of the transactions contemplated herein, the Seller and its representatives have been afforded full and free access to corporate books, documents, and other information concerning the Buyer and to is offices and facilities, have been afforded an opportunity to ask such questions of the Buyer and its officers, employees, agents, accountants, and representatives concerning the Buyer's business, operations, financial condition, assets, liabilities, and other relevant matters as they have deemed necessary or desirable, and have been given all such information as has been requested, in order to evaluate the merits and risks of the prospective investments contemplated herein.

8.8.4 The Seller and its representatives have been solely responsible for the Seller's own "due diligence" investigation of the Buyer and its management and business, for its own analysis of the merits and risks of this investment, and for its own analysis of the fairness and desirability of the terms of the investment. The Seller has such knowledge and experience in financial and business matters that the Seller is capable of evaluating the merits and risks of acquiring the Securities pursuant to the terms of this Agreement and of protecting Seller's interests in connection therewith.

8.8.5 The Seller is able to bear the economic risk of the purchase of the Securities pursuant to the terms of this Agreement, including a complete loss of the Seller's investment in the Securities.

8.8.6 The Securities are transferable only pursuant to (a) public offerings registered under the Securities Act, (b) Rule 144 or Rule 144A of the SEC (or any similar rule or rules then in force) if such rule is available, (c) upon satisfaction of the conditions specified in Section 8,8.8 or (d) any other legally available means of transfer.

8.8.7 *Legend.* Each certificate or instrument representing the Securities shall be imprinted with a legend in substantially the following form:

> The securities represented hereby have not been registered under the Securities Act of 1933, as amended. The transfer of the securities represented by this certificate is subject to the conditions specified in the Rights Agreement, dated as of December 23, 2005, as amended and modified from time to time, between the issuer

(the "*Company*") and certain investors, as amended and modified from time to time. A copy of such Agreement will be furnished by the Company to the holder hereof upon written request and without charge.

8.8.8 In connection with the transfer of any the Securities (other than a transfer described in Section 8.8.6(a) above), the holder thereof shall deliver written notice to the Company describing in reasonable detail the transfer or proposed transfer, together with an opinion of legal counsel which (to the Company's reasonable satisfaction) is knowledgeable in securities law matters to the effect that such transfer of the Securities may be effected without registration of the Securities under the Securities Act. In addition, if the holder of the Securities delivers to the Company an opinion of such counsel that no subsequent transfer of such Securities shall require registration under the Securities Act, the Company shall promptly upon such contemplated transfer deliver new certificates for such Securities which do not bear the Securities Act legend set forth in Section 8.8.7. If the Company is not required to deliver new certificates for such Securities not bearing such legend, the holder thereof shall not transfer the same until the prospective transferee has confirmed to the Company in writing its agreement to be bound by the conditions contained in this Section 8.8.

SECTION 9: TERM and TERMINATION OF RIGHT TO USE THE INTELLECTUAL PROPERTY

9.1 TERM. This Agreement shall continue so long as any Continuing Royalty is payable hereunder, or until earlier terminated as provided herein, except that the licenses granted herein shall continue in perpetuity.

9.2 TERMINATION BY SELLER. Notwithstanding anything to the contrary contained herein, Buyer shall cease to have the right to use the Intellectual Property during such periods as any of the following events shall occur (and such right shall resume upon cure thereof):

9.2.1 Buyer's failure to comply with the requirements of Section 6.1.

9.2.2 Buyer shall have committed a breach of a material term of this Agreement, which shall not be cured within thirty (30) days of written notice of such breach.

9.3 INJUNCTIVE RELIEF. Each party acknowledges that if it should commit a material breach of a material provision of this Agreement, the other party may suffer irreparable damages and that the other party's remedy at law may be inadequate. Therefore, in addition to any remedy of law otherwise available, each party agrees that the other party may be entitled to a temporary or permanent injunction restraining each party from any such violations and that each party may be specifically compelled to perform its material obligations under this Agreement. Each party hereby consents to the personal jurisdiction of any state or federal court located in the state of residence of the other party for the purpose of providing such injunctive relief.

9.4 PRIOR OBLIGATIONS. Unless otherwise expressly provided for herein, termination of Buyer's right to use the Intellectual Property shall be without prejudice to the right of any party who is not in default hereunder to receive all payments accrued and unpaid at the effective date of such termination or expiration, to the remedy of either party in respect to any previous breach of any of the covenants herein contained and to any other provisions herein which expressly or necessarily call for performance after such termination or expiration.

SECTION 10: GENERAL PROVISIONS

10.1 AMENDMENT. This Agreement may be amended by the parties. No amendment will be effective unless in writing, and signed by both parties.

10.2 ARBITRATION.

10.2.1 The parties will attempt through good faith negotiation to resolve any disputes. The term "disputes" includes, without limitation, any disagreements between the parties concerning the existence, formation, interpretation and implementation of this Agreement.

10.2.2 If the parties are unable to resolve their disputes by negotiation, either party may commence arbitration by sending a written notice of arbitration to the other party. The notice will state the dispute with particularity.

10.2.3 The arbitration will be by the American Arbitration Association, which will apply its rules except as stated in this Section 10.2.

10.2.4 The fee payable to the arbitrator will be based upon the then current fee schedule of the American Arbitration Association and will be advanced one half by each party, upon the written request of the arbitrator(s) or the American Arbitration Association.

10.2.5 Except as set forth in this Section 10.2.5, the arbitrator(s) will conduct the arbitration according to the rules of the American Arbitration Association. Arbitration will take place in New York City, unless the parties hereto otherwise agree. The arbitrator(s) will base the decision on the express language of this Agreement.

10.2.6 All decisions of the arbitrator(s) will be final, and binding on both parties, and (except as otherwise provided herein) will constitute the only method of resolving disputes. Judgment may be entered upon the decision in accordance with applicable law in any court having jurisdiction. Each party waives the right to challenge the use of arbitration to resolve disputes as provided for in this Agreement.

10.2.7 This arbitration section and all decisions of the arbitrator(s) will be specifically enforceable in a court of law, or in the arbitral tribunal.

10.2.8 The parties reserve the right to seek a judicial temporary restraining order, preliminary injunction, or other similar short term equitable relief prior to the appointment of the

arbitrator. The arbitral tribunal will have the right to make a final determination of the parties' rights, including whether to make permanent, modify or dissolve any judicial order.

10.2.9 Nothing contained in this Section 10.2 shall preclude the Seller or Buyer from enforcing its rights under this Agreement in accordance with its terms.

10.3 ATTORNEYS' FEES. If either party institutes litigation or arbitration to interpret or enforce this Agreement, or to recover damages for breach of this Agreement, the prevailing party will be entitled to recover costs of suit or arbitration, and to recover actual attorney fees.

10.4 CAPTIONS. The titles and captions are included only as a matter of convenience. They will not affect the interpretation of any provision.

10.5 WORDING. Words herein denoting the singular number only shall include the plural and vice versa.

10.6 CONSENTS AND APPROVALS. A party will not unreasonably withhold or delay a consent provided for in this Agreement, unless the Agreement specially permits otherwise. Consents will be effected only by written notice.

10.7 CONSTRUCTION OF AGREEMENT. Both parties and their counsels have participated fully in the review and revision of this Agreement. Any rule of construction to the effect that ambiguities are to be resolved against the drafting party will not apply to the interpretation of this Agreement.

10.8 COUNTERPARTS. This Agreement may be executed in two counterparts, each of which will be deemed an original, but taken together will constitute one instrument.

10.9 BUSINESS DAYS. If the day for performance of any obligation under this Agreement is a Saturday, Sunday or legal holiday, then the time for performance of any obligation under this Agreement will be extended to 5:00 p.m. on the first day following which is not a Saturday, Sunday or legal holiday.

10.10 CUMULATION OF REMEDIES. The various rights, options, elections, powers, and remedies under this Agreement, or granted by law (collectively, "Remedies"), will be construed as cumulative. No single Remedy is exclusive of any of the other Remedies.

10.11 DOLLARS. All the amounts referred to herein are in United States Dollars.

10.12 ELECTRONIC FACSIMILE. If a party signs this Agreement and then transmits an electronic facsimile of the signature page to the other party, the party who receives the transmission may rely upon the electronic facsimile as a signed original of this Agreement.

10.13 EXPENSES. Except as may be specifically provided for in this Agreement, both parties will bear their own expenses incurred in connection with this Agreement and the transactions contemplated in it including, but not limited to, legal and accounting fees.

10.14 FURTHER ASSURANCES. Each party will do such further acts, including executing and delivering additional agreements or instruments as the other may reasonably require, to consummate, evidence or confirm the agreements contained in this Agreement or otherwise carry out the intent and purposes of this Agreement.

10.15 GOVERNING LAW. This Agreement will be construed and enforced according to the laws of the State of New York without regard to conflicts of law principles.

10.16 INCORPORATION OF RECITALS AND THE EXHIBIT. All Recitals and the schedules and exhibit referred to in this Agreement are an integral part of this Agreement. They are incorporated in this Agreement by this reference as though at this point set forth in full.

10.17 INTEGRATION. The making, execution and delivery of this Agreement by the parties has not been induced by any representations, statements, warranties or agreements other than those expressed in this Agreement. This Agreement, the Exhibits, and the Schedules hereto embody the entire understanding of the parties. There are no other agreements or understandings, written or oral, in effect between the parties relating to the subject matter of this Agreement, unless expressly referenced in this Agreement, the Exhibits, or the Schedules hereto.

10.18 NO JOINT VENTURE. Neither party is an employee, agent, partner, or joint venture with or of the other party.

10.19 NOTICES.

10.19.1 WRITTEN NOTICES. All notices, demands or requests ("Notices") which are required or permitted to be given pursuant to this Agreement will be in writing. Notices will be delivered personally, by commercial carrier, by fax with a machine generated confirmation sheet or by registered or certified mail, postage prepaid, addressed to a party as stated below.

Seller's address for notices:
9715 West Sunset Highway, Spokane, Washington, 99224
Attention: Steve McGrew, President
Tel: 509-456-8321 Fax: 509-456-8321

With a copy to:
Witherspoon Kelly, 1100 US Bank Bldg, 422 W Riverside Ave, Spokane, WA 99201
Attn: Andrew Schultheis
Phone: 509-624-5265 Fax: 509-458-2728

Buyer's address for notices:
2166 Brighton Henrietta Townline Road, Suite B, Rochester, New York, 14623
Attn: Paul Travers, President & CEO
Tel: 585-240-8000 Fax: 585-240-8003

With a copy to:

Boylan, Brown, Code, Vigdor & Wilson, LLP
2400 Chase Square
Rochester, NY 14604
Attn: Robert F. Mechur
Phone: 585-238-3576 Fax: 585-238-9022

10.19.2 EFFECTIVE DATE. Notice given personally or by commercial carrier is effective upon delivery. Notice given by fax with a machine generated confirmation sheet is effective upon sending. Notice given by mail of a national government is effective seven days after the date of mailing.

10.19.3 CHANGE OF ADDRESS. Either party may change his/its address for Notices by notice given pursuant to this section.

10.20 PARTIAL INVALIDITY. If any provision of this Agreement is held to be invalid or unenforceable, such invalidity or unenforceability shall not invalidate this Agreement as a whole, but this Agreement shall be construed as though it did not contain the particular provision held to be invalid or unenforceable and all other rights and obligations of the parties shall survive to the maximum extent permitted by law.

10.21 SOLE DISCRETION. If any party may make a decision or take action or refuse to take action under this Agreement in that party's sole discretion, the party may act based on any reason or no reason, so long as the basis for action is not an illegal reason.

10.22 TIME OF THE ESSENCE. Time is of the essence throughout the term of this Agreement for every provision in which time is an element. No extension of time for performance of any act will be deemed an extension of time for the performance of any other acts.

10.23 WAIVER OF RIGHTS. No waiver of or failure by either party to enforce a provision, covenant, condition or right under this Agreement (collectively, "Right") will be construed as a subsequent waiver of the same Right, or a waiver of any other Right. No extension of time for performance of any obligations or acts will be deemed an extension of the time for performance of any other obligations or acts.

10.24 SUCCESSORS AND ASSIGNS; NO THIRD PARTY BENEFICIARIES. This Agreement shall inure to the benefit of the parties to this Agreement and their respective permitted successors and assigns and shall be binding upon the parties to this Agreement and their respective successors and assigns. Seller may not assign any of its rights under this Agreement without the prior written consent of Buyer, such consent not to be unreasonably withheld. There are no third party beneficiaries under this Agreement and the sole and intended beneficiaries of this Agreement are Buyer and Seller.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

ICUITI CORPORATION	**NEW LIGHT INDUSTRIES, LTD.**
/s/ Paul J. Travers	/s/ Steve McGrew
Signature	Signature
Paul J. Travers, CEO & President	Steve McGrew, President
Print Name & Title	Print Name & Title
12/23/05	12/23/05
Date Signed	Date Signed

SCHEDULE A

THE "PATENTS"

The "Patents" are:

1. U.S. Patent No. 6,181,367 (issued 1/30/2001),
2. U.S. Patent No. 5,973,727 (issued 10/26/1999), and
3. China patents derived from U.S. Patents No. 6,181,367 and/or No. 5,973,727, including any extensions (pending or issued) , divisionals, patents of addition of the United States or any other country or political subdivision thereof, all registrations and recordings thereof, and all patents to issue in such applications of the United States or any other country or political subdivision thereof, including, without limitation, registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country or political subdivision thereof, including, without limitation, improvements, divisions, renewals, reissues, extensions, continuations, and continuations-in-part or extensions thereof that are used or useable in any respect in connection with or that relate to Video Image Viewing Devices And Methods.

These patents cover an extremely compact head-mounted virtual reality display using total internal reflection, a switching means such as a liquid crystal layer, and a holographic optical element (HOE) or other beam-directing means (together, the "Technology").

THE "INTELLECTUAL PROPERTY"

Intellectual Property means:

(a) The Patents;

(b) Any and all other intellectual property rights belonging to Seller as of December 23, 2005 that are used or usable in any respect in connection with or that relate to Video Image Viewing Devices And Methods, said other intellectual property rights including specifically all of any of the following: copyright rights, copyright applications, copyright registrations, copyright recordings and like protections in each work of authorship and derivative work thereof, whether registered or unregistered or published or unpublished and whether or not the same also constitutes a trade secret, held pursuant to the laws of the United States, any State thereof or of any other country or political subdivision thereof;

(c) Any and all income, royalties, damages, claims, and payments now and hereafter due and payable, including, without limitation, all claims for damages and payments by way of past, present and future infringement, misappropriation, or dilution of any of the rights included above, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the Patents or other intellectual property rights identified in a) and b) above;

(d) All licenses or other rights to use any of the intellectual property rights identified in a), b) and c) above, all license fees and royalties arising from such use to the extent permitted by such license or rights and not prohibited by applicable law;

(e) All amendments, continuations, renewals and extensions of any of the Intellectual Property described above; and

(f) All know-how, show-how, prototypes, drawings, designs, diagrams, computer programs and their sources, design assurance data and other tangible technical information used by Seller in connection with the Intellectual Property described above.

The remainder of this page is left intentionally blank.

Ex 10.17

NOTE

October ___, 2008

Rochester, New York

FOR VALUE RECEIVED, the undersigned, Vuzix Corporation., a Delaware corporation (the "Borrower"), **DOES HEREBY PROMISE** to pay to the order of Paul Travers (the "Lender"), at its office at 75 Town Centre Drive, Rochester, NY 14623, in lawful money of the United States and in immediately available funds, the aggregate unpaid principal amount of all Loans made to the Borrower by the Lender hereunder and pursuant to the Agreement, **ON DEMAND**, and to pay interest (computed on the basis of a year of 360 days) from the date of this Note on the unpaid principal amount hereof, in like money, at said office, at a rate per annum equal to twelve percent (12%) per annum. Interest accrued on this Note shall be paid monthly on the first day of each month commencing December 1, 2008. The principal balance hereof and interest accrued hereon shall be due and payable in full on December 31, 2010 even if no demand for payment has been made

The Borrower hereby authorizes the Lender to endorse on the Schedule annexed to this Note all Loans made to the Borrower and all payments of principal amounts in respect of such Loans, which endorsements shall, in the absence of manifest error, be conclusive as to the outstanding principal amount of all Loans; provided, however, that the failure to make such notation with respect to any Loan or payment shall not limit or otherwise affect the obligations of the Borrower under the Agreement or this Note.

This Note is the Note referred to in a certain Loan Agreement between the Lender and the Borrower, dated the same date as the date of this Note (the "Agreement"), and capitalized terms used herein shall have the meanings ascribed to such terms in the Agreement. The Agreement, among other things, contains provisions for prepayments on account of the principal of this Note prior to demand upon the terms and conditions specified in the Agreement.

This Note shall be governed by the laws of New York applicable to contracts made and performed wholly within such state, without regard to conflict of laws principles.

Vuzix Corporation

By: /s/ Grant Russell
Name: Grant Russell
Title: Chief Operating Officer

Exhibit 10.19

CERTAIN CONFIDENTIAL PORTIONS OF THIS EXHIBIT WERE OMITTED AND REPLACED WITH "[***]". A COMPLETE VERSION OF THIS EXHIBIT HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO AN APPLICATION REQUESTING CONFIDENTIAL TREATMENT UNDER RULE 406 OF THE SECURITIES ACT OF 1933.

Distribution and Manufacturing Agreement

This Distribution and Manufacturing Agreement (the "Agreement"), effective August 27, 2009 (the "Effective Date"), is made between **VUZIX Corporation**, whose principal place of business is located at 75 Town Centre Drive, Rochester, New York 14623 U.S.A. (herein referred to as "VUZIX") and YuView Holdings Ltd., with its registered office at 800-885 West Georgia Street, Vancouver, B.C. V6C 3H1 (hereinafter referred to as "RESELLER") each a "Party" and, collectively, the "Parties".

NOW THEREFORE in consideration of the mutual covenants and agreements herein and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties agree as follows:

1. GRANT OF LICENSE AND AREA OF RESPONSIBILITY

1.1 VUZIX grants to RESELLER the exclusive right to sell, promote and distribute the products listed in Schedule B (the "Products") in the area(s) (the "Territory") described on Schedule A - -I (the "License").

1.2 This License is limited to the Territory, and does not extend to any other area or market. No exporting or re-exporting of Products to any customers outside of the Territory, either directly or indirectly, is authorized unless written authorized permission is granted by VUZIX.

1.3 The License may be terminated by VUZIX if RESELLER fails to meet the sales volume goals established by VUZIX and RESELLER for any period, as specified in Schedule B to this Agreement.

1.4 If RESELLER has not signed a Letter Of Intent, Letter of Understanding, or a Product Supply Agreement with [**********] in the Territory to be a preferred or strategic supplier of video eyewear Products made by VUZIX or based on VUZIX Key Components within [**********] of the signing of the Agreement, VUZIX shall the right thereafter to change of all RESELLER's rights under this Agreement to non-exclusive.

2. RESELLER'S OBLIGATIONS

2.1 RESELLER agrees to use commercially reasonable diligent, good faith efforts to promote the sale, distribution and promotion of the Products in the Territory. RESELLER shall actively and continuously develop, promote and maintain the distribution and support network for the Products within the Territory and shall engage in public relations and educational campaigns to inform the public of the Products within the Territory (including running pilot tests of the Products with potential customers), that RESELLER in its sole discretion considers necessary to create a demand therefore.

RESELLER agrees that it will not directly or indirectly, manufacture, market or distribute other products that are competitive with or substantially similar (either in function, form or features) to the Products covered under this Agreement, nor will it assist anyone else to do so.

2.2 RESELLER shall organize, train and maintain a competent force of sales persons who shall call on or contact customers in the Territory on a regular basis.

2.3

2.4 RESELLER shall set up and maintain a technical support centre for customers in the Territory that is adequate to provide support to its customers in a manner that is reasonably consistent with the practices provided by other companies within the Territory for similar types of consumer oriented products.

2.5 RESELLER may make full and effective use of promotional aids, selling aids, educational materials, advertising materials and related items as VUZIX may furnish to RESELLER. RESELLER, at its own cost, may develop and produce its own promotional materials which shall be in a manner that maintains the image of VUZIX and the Products and protects VUZIX' trademarks. RESELLER will use commercially reasonable efforts to provide VUZIX with copies of all such materials before they are released publicly. If VUZIX provides any written comments within ten days (10) after its receipt of such materials, RESELLER will work with VUZIX to implement or address those suggestions.

2.6 RESELLER shall cooperate with VUZIX marketing, sales management and field educational personnel in the promotion and selling of the Products.

2.7 RESELLER shall keep such amount of inventory of the Products as to be reasonably determined by RESELLER in view of the actual demand of the Products and Product manufacturing lead times.

2.8 RESELLER will maintain an adequate capital base and available credit lines to operate effectively with enough working capital to meet the demands of the customers within the Territory.

2.9 RESELLER will (i) conduct its business in a manner that reflects favorably at all times on the VUZIX Products and the good name, goodwill and reputation of VUZIX; (ii) avoid deceptive, misleading or unethical practices, that are or might be detrimental to VUZIX, the Products or the public; (iii) make no false or misleading representation with regard to VUZIX or the Products; (iv) not publish or employ or cooperate in the publication or employment of deceptive or misleading advertising material with regard to VUZIX or the Products; (v) make no representations, warranties or guarantees to customers or the trade with respect to the specifications, features or capabilities of the Products other than those included in the Products user documentation.

2.10 Both parties shall comply with all applicable international, national, provincial and state, regional, and local laws and regulations, including but not limited to export laws and regulations, in performing their duties hereunder and in any of their dealings with respect to the Products.

2.11 RESELLER shall only distribute, sell or resell the Products in the Territory under RESELLER's trade names or trade-marks or co-brand the Products with the VUZIX' trade names and trade-marks in accordance with the terms of this Agreement and with standards for the use of VUZIX's trademarks supplied by VUZIX.

2.12 RESELLER will distribute the Products with all packaging, warranties, disclaimers and license agreements intact as shipped from VUZIX, and will provide each of its customers with the terms of the License Agreement applicable to any VUZIX software included with the Products. Notwithstanding the above, if RESELLER has exercised its option to manufacture the Products under Section 5, RESELLER will be responsible for providing packaging, warranties and disclaimers for the Products manufactured in the Territory with the exception of all warranties and disclaimers applicable to Key Components (as defined herein), which warranties and disclaimers VUZIX will be responsible for. VUZIX will make no, and will have no responsibility for, warranties with respect to such products, other

than with respect to Key Components. In the event the RESELLER has exercised its option to manufacture the Products pursuant to Section 5 of this Agreement, RESELLER will ensure that all packaging, license terms, warranties, and disclaimers provide adequate protection for the intellectual property of VUZIX, which will have the right to approve such license terms, warranties and disclaimers as they relate to VUZIX intellectual property or the Key Components and will provide such approval within a reasonable time not to exceed thirty (30) days.

2.13 RESELLER will use commercially reasonable efforts to advise VUZIX promptly concerning any market information that comes to RESELLER's attention regarding the Products, VUZIX's market position or the continued competitiveness of the Products in the marketplace.

3. VUZIX'S OBLIGATIONS

3.1 VUZIX will, at the request of RESELLER, provide RESELLER with information and materials reasonably necessary for RESELLER's performance of marketing as contemplated hereby. VUZIX shall furnish to RESELLER, free of charge, such number of copies as required by RESELLER, within reason, of all available manuals in the English and Mandarin Language, and Product related sales and advertising material, Product manuals, and installation and operation manuals then in use by VUZIX (unless specifically prepared for another customer of VUZIX). For the avoidance of doubt, VUZIX shall have no obligation to create for or provide to RESELLER any materials other than its then-existing standard materials.

3.2 VUZIX will modify all packaging associated with the Products as reasonably requested by the RESELLER to reflect RESELLER's trade-marks and to meet special needs due to language differences and imposed packaging requirements in the Territory.

3.3 VUZIX shall make available to RESELLER in Beijing, at least twice per calendar year for periods of not more than 5 business days each or on a more frequent basis if required to support the launch of new Products or amended technology in existing Products, technically competent personnel to counsel RESELLER's engineers in a manner reasonably necessary to enable RESELLER's marketing of the Products as contemplated herein. RESELLER shall bear the reasonable expenses of having VUZIX personnel attend and instruct such courses in China, namely, the expenses of transportation, accommodation and meals.

3.4 VUZIX shall provide to RESELLER access to any reasonably necessary technical training courses that it develops, free of charge. RESELLER shall bear the reasonable expenses of having VUZIX personnel attend and instruct such courses in China, namely, the expenses of transportation, accommodation and meals. RESELLER shall have the right to have each such course presented in China once without charge other than for expenses, and each additional presentation of such course shall be paid for by RESELLER at VUZIX' standard per diem rate for the VUZIX personnel involved.

3.5 VUZIX in cooperation with the RESELLER shall prepare, obtain or transmit to RESELLER and all parties concerned, all export documents that are normally required to export the Products from the United States to RESELLER's designated shipment point in the Territory provided, however, that VUZIX shall not prepare, obtain or transport documents providing for the export of the Products in violation of applicable United States export regulations or where such export is prohibited or substantially restricted. VUZIX shall not be responsible for delivery delays caused by its inability to obtain export clearance so long as VUZIX reasonably attempts and continues to attempt to obtain such clearance.

3.6 VUZIX shall be responsible for all export costs into the Territory, however such costs will be included in its selling price to the RESELLER, and RESELLER shall be responsible for all import costs into the Territory, CIF Beijing.

3.7 VUZIX will not itself and will not authorize anyone else to directly or indirectly market, advertise, promote or sell products that are manufactured by VUZIX or its licensed third party partners or OEM's that are substantially similar with the Products in the Territory. VUZIX will promptly refer all inquiries regarding the Products received from within or about the Territory to RESELLER. VUZIX may market its brand within the Territory, subject to the prior consent of the RESELLER, with such consent not to be unreasonably withheld.

3.8 VUZIX will be responsible for and will use reasonable commercial efforts to protect and enforce VUZIX's intellectual property rights in and arising from the Products throughout the Territory, including the filing of applications and the maintenance of registrations for patent, copyright, trade-mark, industrial design and other applicable intellectual property rights throughout the Territory. If RESELLER becomes aware of any third party infringement or other misuse of such intellectual property rights, RESELLER will promptly inform VUZIX of such infringement and RESELLER will, at VUZIX's cost, provide such reasonable assistance to VUZIX as VUZIX requests for the purpose of enforcing its intellectual property rights against such infringement. If VUZIX elects not to take any action to prevent the infringement or other misuse of its intellectual property rights in the Territory within 60 days of being advised of an infringement (i) after having being advised by its legal counsel that such action is justified and has a reasonable likelihood of success, and (ii) where the expected damages recovery or damage mitigation would be greater than the costs of action or the costs of doing nothing, RESELLER may, at RESELLER's option, take such action at VUZIX's expense, in which case VUZIX will, at VUZIX's expense, provide reasonable cooperation in such action. VUZIX will promptly provide RESELLER with the basis of the determination as set out in (i) and (ii) in the previous sentence, and in the event RESELLER disagrees with the determination and the parties are not able to arrive at an agreed course of action within 10 days, either party may at its option refer the matter for arbitration as set out in this Agreement. In the event the RESELLER is unsuccessful in having arbitration agreeing such actions have reasonable merits to proceed, then it will be required to reimburse VUZIX for all its costs related to this matter, inclusive of all costs since the matter was originally raised by the RESELLER. In the event where RESELLER elects to proceed with an action that it solely undertakes at its own cost, and VUZIX has elected not to proceed in accordance with the terms of this Agreement after an arbitrators decision on the lack of positive merits of such an action, then VUZIX shall not be liable for any costs but will provide reasonable cooperation in such actions, at RESELLER's expense. Any money or proceeds recovered by way of damages, judgments, settlements or otherwise with respect to such action that are not measured by the royalties that would be payable to Vuzix for the use of such intellectual property, will be kept by the Party who bore the costs of such action or, in any case where the Parties have shared the costs, such money will be shared in proportion to the costs borne by each Party.

3.9 RESELLER will at all times be responsible for protecting and enforcing RESELLER's trade-mark rights in and relating to the Products throughout the Territory.

3.10 VUZIX reserves the right to protect and enforce such rights in the Territory if it so wishes and will prepare and submit or file all such rights on its own behalf only. RESELLER may use Vuzix' trademarks, trade names and trade dress only in such manner as Vuzix shall specify, inclusive of any local and special requirements to ensure the protection of the rights within the Territory.

3.11 VUZIX will use commercially reasonable efforts to advise RESELLER promptly concerning any market information that comes to VUZIX's attention regarding the

Products, the RESELLER's market position or the continued competitiveness of the Products.

4. TERMS OF SALE AND SHIPMENT

4.1 All sales to RESELLER shall be in accordance with the prices and volume discounts disclosed in Schedule C. At no time will the price and volume discounts set out in Schedule C be less advantageous to RESELLER than the best price for equivalent volumes offered by VUZIX to its best resellers for the same Product, subject to the pricing adjustments described in Schedule C. Payments shall be made in accordance with the terms set out in Schedule C.

4.2 Unless RESELLER has exercised its option to manufacture the Products under Section 5, if RESELLER does not meet the minimum business volumes ("MBV") set out in Schedule B within the times set forth in such Schedule, VUZIX may terminate this Agreement in accordance with Section 11.4. If RESELLER has exercised its option to manufacture the Products under Section 5, and if RESELLER does not meet the MBV set out in Schedule B for Key Components, VUZIX may terminate this Agreement in accordance with Section 11.4. The MBV set out in Schedule B may be amended from time to time by written agreement of the Parties.

4.3 VUZIX reserves the right, to change at anytime, and from time to time, its Products, packaging, labeling, and promotional material and manufacturing techniques, upon 90 days prior written notice to RESELLER. VUZIX however, will use commercially reasonable efforts to consult with the RESELLER in advance when such changes are intended.

4.4 All orders are subject to acceptance by VUZIX, which acceptance shall not be unreasonably withheld, conditioned or delayed. Delivery is subject to Product availability, VUZIX overall manufacturing capabilities and working capital position at the time RESELLER's order is received.

4.5 Subject to the conditions contained in Section 4.4, VUZIX will use commercially reasonable efforts to meet delivery dates accepted by it in each order. Orders accepted by VUZIX may not be canceled by RESELLER except on terms acceptable to VUZIX, unless VUZIX is unable to meet delivery dates previously agreed upon. Orders accepted by VUZIX may not be canceled by VUZIX unless RESELLER is on credit hold or in breach of this Agreement, except on terms acceptable to RESELLER.

4.6 VUZIX shall pack all Products it delivers in accordance with good commercial practices. Shipment of Products will be made on terms CIF Beijing. Title and risk of loss passes to RESELLER when the Products are delivered to RESELLER in Beijing. RESELLER is obligated to examine any shipment upon receipt and report any damage to or shortage of merchandise promptly to the carrier, its agents or insurance agents and to VUZIX within thirty (30) days of delivery. VUZIX is responsible for any losses or damage caused by the freight carrier during shipment that are reported within the thirty (30) days. Any RESELLER claim for other adjustments of an invoice is deemed to be waived if RESELLER fails to present such claim within thirty (30) days from the date of the invoice. .

4.7 Purchase orders and instructions between VUZIX and RESELLER shall be written and may be sent by facsimile machine (with delivery acknowledgment) , mail (acknowledged, return receipt requested), electronic mail (with delivery acknowledgement) and/or hand delivered and shall be effective as to a party when received by it, subject to the other provisions of this Agreement. VUZIX will provide RESELLER with confirmation of receipt of purchase orders and instructions within five (5) business days. While RESELLER may

employ its own form of purchase order, RESELLER agrees that the terms of this Agreement shall exclusively govern the sale of the Products and any terms or provisions of RESELLER's purchase orders or of VUZIX's invoices which are different from or in addition to the terms of this Agreement shall be null, void and of no force and effect.

4.8 If RESELLER fails to pay any sum that has not been disputed on a reasonable commercial basis when due, after the provision of ten (10) days written notice by VUZIX, VUZIX may discontinue performance under this and or any other Agreement between VUZIX and RESELLER and pursue such other remedies as may be available to it including, but not limited to, termination of this Agreement.

4.9 Net RESELLER Price in Schedule C is CIF Beijing, in U.S. Dollars, unless otherwise indicated on the quotation. VUZIX reserves the right to charge RESELLER for all routing, packing, handling, or additional insurance requested by RESELLER and agreed to by VUZIX. Orders shipped under special routing instructions must be separately agreed upon and may be subject to additional charges.

4.10 Prices are exclusive of, and the RESELLER will report and pay all, applicable sales, use, service, excise, import duties, value added or like taxes, unless RESELLER has provided VUZIX with an appropriate exemption certificate for delivery into the Territory. RESELLER is responsible for obtaining all necessary import approvals for the Product.

4.11 In the event a customer of RESELLER proposes to impose late delivery charges or other similar terms on RESELLER for a particular order or orders, RESELLER will advise VUZIX of such proposed terms and VUZIX and RESELLER will negotiate in good faith and acting reasonably, the imposition of the same terms on VUZIX (to the extent that late delivery if the result of any action or failure to act by Vuzix, other than as the result of a force majeure event) if VUZIX accepts such order.

4.12 RESELLER acknowledges that any commitment made by RESELLER to its customers with respect to price, quantities, delivery, specifications, warranties, modifications, interfacing capability or suitability (each a "Commitment"), which is more favorable to the customer than the standard terms generally made available by VUZIX to RESELLER or, in the case of warranties greater than the warranty terms set out in Section 8, will be RESELLER's sole responsibility, and RESELLER will indemnify VUZIX from liability for any such more favorable Commitment by RESELLER.

5. RIGHT TO MANUFACTURE

5.1 If RESELLER sells at least the number of units (the "Minimum for Manufacturing Amount") of the Products set out in Schedule B in the Territory during any twelve (12) consecutive month period, RESELLER will have the right, but not the obligation, to manufacture in the Territory RESELLER's full future requirement of the Products, as well as any additional Products required under Section 5.8. For these purposes, a sale shall mean that Products are ordered by RESELLER in accordance with normal lead times, payment and credit terms for such orders and shall include such Products that have been ordered but can not be delivered in the requested time frame by VUZIX.

5.2 If RESELLER elects to exercise its right to manufacture the Products, RESELLER will notify VUZIX in writing. In the event the RESELLER does not manufacture the Products itself, RESELLER will before it has contracted with any third party manufacturer, provide notice of its selection along with enough information (including the option for VUZIX to physically visit) for VUZIX to investigate and approve any such third party manufacturers before proceeding. RESELLER shall not retain or permit anyone to manufacture Products without the prior written consent of VUZIX and such consent will be provided in a reasonable time not to exceed 60 days, The written consent of VUZIX for RESELLER's

choice of third party manufacturers is not to be unreasonably withheld; provided, that VUZIX shall have the absolute right to approve any manufacture who is, or is an Affiliate of, any person who manufactures or sells any products (or any component thereof) that compete with the Products. In the event that the RESELLER subsequently changes manufacturers, VUZIX must re-approve the selection.

5.3 RESELLER must use commercially reasonable diligent efforts to ensure that the Products, or any Products components, manufactured by RESELLER are not sold or otherwise distributed, exported, sold, leased or licensed outside of the Territory. Any failure of RESELLER to use commercially reasonable diligent efforts to ensure that such distribution, export, sale, lease or license does not occur outside of the Territory will be considered a material breach of this Agreement for all purposes, including the right of termination set forth in Section 11.6.

5.4 (a) Notwithstanding Section 5.2, RESELLER acknowledges that the key components of the Products, as described in Schedule D-I (the "Key Components") will not be disclosed to RESELLER and will not be manufactured by RESELLER. RESELLER will purchase the Key Components exclusively from VUZIX, as set out in Schedule D. VUZIX shall sell the Key Components to RESELLER at the same price it sells the same Key Components to other OEM customers purchasing the same unit volumes and on the same terms. The price paid by a customer for a Key Component will include all license fees or royalties paid with respect to the license, purchase, sale or use of the Key Components and VUZIX' or other parties' intellectual property included in the Key Component. If the price charged to another OEM customer is lower for purchases of the same Key Components in equivalent volumes and on the same terms, the difference in price paid by RESELLER to VUZIX, shall be adjusted retroactively to (i) the date on which such lower purchase price was charged to the OEM, if such lower price was first charged after sales have been made to RESELLER or (ii) the date on which sales were first made to RESELLER, if such lower a purchase price was in effect on that date. If VUZIX ceases to sell Key Components to such other OEM customer(s) at such lower prices, the purchase price to RESELLER shall be adjusted (upward or downward) as of the applicable date to new the price being paid by such OEM. Such an adjustment shall be made each time an adjustment is made in the purchase price being paid by an OEM, but it will only cover the period of such pricing for the duration the OEM is purchasing the Key Components.

(b) VUZIX will take all commercially reasonable steps to ensure that the Key Components incorporating VUZIX proprietary technology used in the manufacture of the Products are only available for purchase through VUZIX and that the manufacturers of such Key Components for VUZIX can not sell the Key Components to other third parties for use in substantially similar products.

(c) In the event there are no other third party customers other than the RESELLER that are purchasing the Key Components from VUZIX to establish a reasonable basis for competitive pricing, it is understood that the total dollar gross margin to be earned by VUZIX in selling the Key Components shall not exceed the total dollar gross margin that VUZIX otherwise earns by selling a finished product incorporating the same Key Components as a finished product to its third party customers, less an allowance for the typical gross margin that would be required for a third party manufacturer of like volumes of all the other raw components and labor costs that get combined and assembled with the Key Components into an equivalent finished product.

(d) If the RESELLER has exercised its option to manufacture the Products using Key Components as per Section 5.1, RESELLER may request, not more than twice annually for VUZIX to provide its costing of all the non-Key Components required to manufacture a specific video eyewear Product for informational purposes only. The RESELLER may request a "verification" of such costing information provided by VUZIX, subject to an audit

by an independent third party under an obligation of confidentiality. All costs of any verification audit will be the sole responsibility of the RESELLER and such audits are to take place at VUZIX main office in Rochester, New York.

5.5 VUZIX and RESELLER will use commercially reasonable efforts to cooperate to maximize their respective returns and have uninterrupted supply of Key Components sufficient to meet the manufacturing needs of both Parties.

5.6 If RESELLER notifies VUZIX of its intent to manufacture the Products in the Territory, VUZIX will within 90 days establish and maintain an escrow agreement (the "Escrow Agreement") for the documentation and any other collateral materials related to manufacture of the Key Components that VUZIX directly owns or controls, to the extent that VUZIX is legally entitled to place such materials in escrow or deliver them to a third party with a recognized and reputable third party escrow agent mutually agreed to by VUZIX and RESELLER (the "Escrow Agent"). VUZIX will, pursuant to the Escrow Agreement deposit the documentation, information and collateral materials necessary, useful and sufficient to enable someone skilled in the art to manufacture and produce the Key Components, (collectively, the "Escrowed Materials"). VUZIX will also deposit with the Escrow Agent all documentation, information and collateral materials in respect of all upgrades, improvements, enhancements and other modifications to the Key Components, within 30 days from the date that such upgrades, improvements and other modifications become commercially available, and such upgrades, improvements and other modifications shall form part of the Escrowed Materials. RESELLER will have the right to receive the Escrowed Materials from the Escrow Agent if VUZIX ceases, without just cause to provide RESELLER with the Key Components either directly or indirectly through a qualified successor or subcontractor pursuant to the terms of this Agreement. Upon any release of the Escrowed Materials to RESELLER pursuant to the Escrow Agreement, VUZIX hereby grants to RESELLER a non-exclusive right to use and modify the Escrowed Materials for the sole purpose of making, using and selling the Key Components for their inclusion in the finished Products within the Territory, without the right to disclose, sublicense, assign or otherwise transfer such right. All other terms of this Agreement shall remain in full force inclusive of the payment of royalties to Vuzix and Territorial limitations.

5.7 RESELLER will be responsible for all costs related to manufacturing and setting up manufacturing in the Territory, and for the maintenance of the Escrow Agreement. VUZIX will provide RESELLER with all required knowledge, information and specifications to enable RESELLER to manufacture the Products except for the Key Components.

5.8 If VUZIX wishes to use RESELLER as a manufacturer of Products outside the Territory, the Parties will use good faith efforts to negotiate a suitable arrangement.

5.9 RESELLER will consult with VUZIX throughout the manufacturing process in order to ensure that the Intellectual Property, as defined in Schedule D, is diligently protected, and that the character and quality of the Product manufactured by RESELLER are substantially similar to the character and quality of the Product manufactured by VUZIX, and based on appropriate industry standards. Samples of all RESELLER manufactured Product shall be provided to VUZIX at least quarterly, or at such more frequent intervals as VUZIX may request, so that VUZIX can insure their performance and quality before they are sold.

5.10 RESELLER will be responsible for all costs related to warranties for the Products it manufactures, with the exception of costs related to warranties for Key Components, which costs VUZIX will be responsible for.

5.11 VUZIX will provide technical assistance where reasonably necessary to assist RESELLER in the manufacturing of the Products in the Territory, on a cost recovery basis to VUZIX.

6. IMPROVEMENTS

6.1 RESELLER will have the right to modify the Products (if RESELLER is manufacturing the Product) or request VUZIX to modify the Products (if RESELLER is not manufacturing the Product) at RESELLER's expense as may be required or desired to improve the Products or to make the Products suitable for sale in the Territory where such modifications exceed UL, FCC, or CE cost equivalents. VUZIX will use commercially reasonable efforts (taking into account such factors as Vuzix' capacity for its other requirements and the general utility of such modifications) to comply with any such requests received from RESELLER. Such improvements to the Products made by RESELLER will, at VUZIX's option, be licensed back to VUZIX for its worldwide use, outside the Territory based on RESELLER's actual costs relating to the improvement prorated reasonably over the total number of units of Products anticipated to be produced by both RESELLER and VUZIX over a 24 month period. After the 24 month period, the license will be royalty free.

7. RIGHT TO VERIFY

7.1 VUZIX will have the right to verify the unit sales of Products, royalty amounts (if applicable under Section 5), and the protection of Intellectual Property, and RESELLER will promptly provide VUZIX with such accurate and complete information upon request: RESELLER shall provide VUZIX the right to periodically have an independent third party perform an audit, but not more than once annually, of the books and records of RESELLER to verify the accuracy and correctness of the royalty payments to VUZIX under a standard non-disclosure agreement. RESELLER agrees that it will provide reasonable access to its facilities and personnel for purposes of verifying compliance In the event it is determined as a result of such audit that RESELLER has underpaid or under-reported royalty payments due to VUZIX by more than five percent (5%) in any period, RESELLER will be required to reimburse VUZIX immediately for the costs of the audit, all unpaid and overdue Royalty payments, plus pay accrued interest of 1.5% per month, and a fifty percent (50%) penalty on any such unpaid royalties. In the event royalty payments have been intentionally or negligently underpaid by 10% of more, RESELLER will be deemed to have made a material breach of this Agreement and Vuzix may in addition to other remedies recover the amounts together with a fifty percent (50%) penalty and interest at the rate of 1.5% per month and may terminate this Agreement pursuant to the provisions of Section 11.6.

7.2 RESELLER has the right to verify their actual purchase price of the Products that it purchases from VUZIX to ensure compliance with the best pricing for equivalent volumes under the provisions of Section 4.1 of this Agreement, and VUZIX will promptly provide RESELLER with such accurate and complete information (other than the names of its customers) upon request not more than twice annually. For the purposes of this clause, RESELLER shall not make any direct contact with other VUZIX customers. The "verification" shall be based upon material provided by Vuzix, subject to audit not more than once annually, by an independent third party under an obligation of confidentiality. In the event it is determined as a result of such review that VUZIX has over charged RESELLER more than five percent (5%) in any period, VUZIX will be required to reimburse RESELLER immediately for the costs of the review, all over charged amounts, plus pay accrued interest of 1.5% per month. In the event costs have been intentionally or negligently over charged by 10% of more, VUZIX will be deemed to have made a material breach of this Agreement and RESELLER may recover the amount of such

overpayment, together with interest at the rate of 1.5% per month, and may terminate this Agreement pursuant to the provisions of Section 11.6.

7.3 After the RESELLER has exercised its option to manufacture under Section 5 of this Agreement, RESELLER will have the right to verify that it is paying the correct purchase price of the Key Components that it purchases from VUZIX, and VUZIX will promptly provide RESELLER with such accurate and complete information (other than the names of its customers) upon request not more than twice annually. For the purposes of this clause, RESELLER shall not make any direct contact with other VUZIX customers or suppliers. The "verification" shall be based upon material provided by Vuzix, subject to audit not more than once annually by an independent third party under an obligation of confidentiality. In the event it is determined as a result of such review that VUZIX has over charged RESELLER more than five percent (5%) in any period, VUZIX will be required to reimburse RESELLER immediately for the costs of the review, all over charged amounts, plus pay accrued interest of 1.5% per month. In the event costs have been intentionally or negligently over charged by 10% of more, VUZIX will be deemed to have made a material breach of this Agreement and RESELLER may recover the amount of such overpayment, together with interest at the rate of 1.5% per month, and may terminate this Agreement pursuant to the provisions of Section 11.6.

8. LIMITED WARRANTY

8.1 VUZIX warrants that it shall ship to RESELLER only those Products which have passed the inspection standard established by VUZIX and that all the Products shipped hereunder shall conform to their specifications in all material respects and be free from defects in design, materials and workmanship, and will perform in accordance with their specifications in all material respects when used without modification and for their intended purposes for the period disclosed in the Product manual and warranty documentation attached as Schedule F. The Products will also comply with the quality control specifications and quality control rate set out in Schedule E.

8.2 VUZIX will provide warranty service for all Products, unless RESELLER has exercised its option to manufacture the Products in the Territory under Section 5. For all Products manufactured outside of the Territory, for a period of one year after delivery to RESELLER, VUZIX will promptly repair or replace any Products that do not meet the warranty set out in Section 8.1. RESELLER will be the contact for all warranty claims by customers within the Territory, and will maintain adequate inventory of Products in order to ensure that customers within the Territory have prompt access to replacement Products. If RESELLER has exercised its option to manufacture the Products in the Territory under Section 5, RESELLER will be responsible for all Product warranties in the Territory, with the exception of warranties for Key Components, which VUZIX will be responsible for. In the event VUZIX determines to pay RESELLER to provide warranty service for Products in the Territory, VUZIX and RESELLER will in good faith negotiate such an arrangement.

8.3 No warranties set forth therein shall be applied and VUZIX shall be free from any liability if the Products are used under condition beyond the scope set forth in the Product manuals. Product warranties do not cover cosmetic damage or damage due to acts of God, accident, misuse, abuse, negligence, or unauthorized modification of or to any part of the Product, or use of the Products with any other device or equipment other than as specified in the specification for that Product. All Product warranties do not cover damage due to improper operation or maintenance, connection to improper voltage supply, or attempted repair by anyone other than VUZIX or a VUZIX' authorized service facility.

8.4 REPAIR OR REPLACEMENT AS PROVIDED UNDER THE PRODUCT WARRANTY IS THE EXCLUSIVE REMEDY OF THE CONSUMER. VUZIX SHALL NOT BE LIABLE FOR ANY INCIDENTAL OR CONSEQUENTIAL DAMAGES FOR BREACH OF ANY EXPRESS OR IMPLIED WARRANTY EXCEPT TO THE EXTENT AN EXCLUSION OF SUCH LIABILITY IS PROHIBITED BY APPLICABLE LAW. VUZIX SHALL NOT BE LIABLE FOR ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. ANY WARRANTY ON THE PRODUCTS IS LIMITED IN DURATION TO THE DURATION OF THE SPECIFIC PRODUCT WARRANTY, AS SET OUT IN SCHEDULE F.

8.5 RESELLER shall include the foregoing disclaimer (Section 8.4) with all Product sold by it.

9. INDEMNIFICATION; DISCLAIMER OF WARRANTIES; LIMITED LIABILITY

9.1 Subject to the limitations set forth in this Agreement, VUZIX agrees to defend or settle, at VUZIX's cost, any claim against RESELLER (including, for the purposes of this section only, RESELLER's end-user customer, or third parties to whom RESELLER is authorized by VUZIX to resell or sublicense) and VUZIX will indemnify and hold RESELLER harmless for any loss, damage or liability (including reasonable attorney's fees and costs of litigation) relating to all third party product liability claims or allegations, all enforceable claims by any third party resulting directly from VUZIX's acts, omissions or representations, and all claims or allegations that the Products or Key Components, delivered under this Agreement infringe a third party patent, utility model, industrial design, copyright, trade secret, mask work, integrated topography or trade-mark in the Territory or country where Products or Key Components are used, sold, or receive support, provided RESELLER (1) promptly notifies VUZIX in writing of any such claim; (2) cooperates fully with VUZIX at VUZIX's expense, in, and grants VUZIX sole control of the defense or settlement; and (3) sells said Products or Key Components in material compliance with this Agreement.

9.2 If such a claim appears likely, VUZIX may modify the Products or the Key Components, as applicable, so that they are no longer infringing or unsafe, procure any necessary license, or replace them. If VUZIX determines that none of these alternatives is reasonably available, VUZIX will refund RESELLER's purchase price upon return of the Products or the Key Components, as applicable, if within one (1) year of Delivery\.

9.3 Not withstanding the prior Section 9.1 and 9.2, VUZIX has no obligation for any claim of infringement arising from: (1) VUZIX' compliance with RESELLER's designs, specifications or instructions; (2) unauthorized Product modification by RESELLER or a third party; (3) Product use prohibited by specifications or related application notes set out in Schedule F; (4) or use of the Product with products not supplied or authorized by VUZIX.

9.4 Subject to the limitations set forth in this Agreement, RESELLER agrees to indemnify VUZIX (including reasonable attorney's fees and costs of litigation) against and hold VUZIX harmless from any and all enforceable claims by any third party resulting directly from RESELLER's acts, omissions or representations, other than those acts, omissions or representations permitted under this Agreement, regardless of the form of action. Provided that such indemnity is conditional upon VUZIX promptly notifying RESELLER in writing of any such claim, VUZIX cooperating fully with RESELLER in and granting to RESELLER sole control of the defense or settlement of such claim and VUZIX complying fully with the terms of any such settlement. NOTWITHSTANDING THE ABOVE, UNDER NO CIRCUMSTANCES SHALL RESELLER BE LIABLE TO VUZIX FOR ANY SPECIAL, INDIRECT, INCIDENTIAL, CONSEQUENTIAL OR EXEMPLARY DAMAGES WHATSOEVER, INCLUDING BUT NOT LIMITED TO LOST PROFITS, BUSINESS INTERRUPTION, LOSS OF BUSINESS INFORMATION OR ANY OTHER PECUNIARY LOSS ARISING OUT OF THIS AGREEMENT OR ANY ACTS, OMISSIONS OR REPRESENTATIONS OF RESELLER, EVEN IF RESELLER HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

9.5 The terms in this Section and the end user warranty attached as schedules to this Agreement, state VUZIX' entire liability to RESELLER and its customers for claims of intellectual property infringement. Such warranty, including all of the disclaimers and limitations contained therein, shall be included with all Product sold by RESELLER to its customers.

9.6 VUZIX MAKES NO WARRANTIES OR REPRESENTATIONS AS TO PERFORMANCE OF VUZIX'S PRODUCTS OR AS TO SERVICE TO RESELLER TO ANY OTHER PERSON, EXCEPT AS SET FORTH IN VUZIX'S LIMITED WARRANTY CONTAINED HEREIN AND THE END USER WARRANTY AS CONTAINED IN THE ATTACHED SCHEDULES TO THIS AGREEMENT AND WITH THE PRODUCTS. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW AND EXCEPT AS PROVIDED IN THIS AGREEMENT, ALL VUZIX PRODUCTS ARE DELIVERED "AS IS" AND WITHOUT EXPRESS OR IMPLIED WARRANTY OF ANY KIND BY EITHER VUZIX OR ANYONE ELSE WHO HAS BEEN INVOLVED IN THE CREATION, PRODUCTION OR DELIVERY OF SUCH PRODUCTS, INCLUDING BUT NOT LIMITED TO ANY IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, AND THE PROVISION OF OR FAILURE TO PROVIDE SUPPORT SERVICES. VUZIX DOES NOT PROMISE THAT THE VUZIX PRODUCTS WILL BE ERROR-FREE OR WILL OPERATE WITHOUT INTERRUPTION.

9.7 UNDER NO CIRCUMSTANCES SHALL VUZIX OR ITS SUPPLIERS BE LIABLE TO RESELLER, END-USER CUSTOMERS OR ANY THIRD PARTIES ON ACCOUNT OF ANY CLAIM (WHETHER BASED UPON PRINCIPLES OF CONTRACT, WARRANTY, NEGLIGENCE OR OTHER TORT, BREACH OF ANY STATUTORY DUTY, PRINCIPLES OF INDEMNITY, THE FAILURE OF ANY LIMITED REMEDY TO ACHIEVE

ITS ESSENTIAL PURPOSE, OR OTHERWISE) FOR ANY SPECIAL, INDIRECT, INCIDENTIAL, CONSEQUENTIAL OR EXEMPLARY DAMAGES WHATSOEVER, INCLUDING BUT NOT LIMITED TO LOST PROFITS, BUSINESS INTERRUPTION, LOSS OF BUSINESS INFORMATION, ANY OTHER PECUNIARY LOSS OR FOR ANY DAMAGES OR SUMS PAID BY RESELLER TO THIRD PARTIES, ARISING OUT OF THE USE OF OR INABILITY TO USE THE PRODUCTS OR THE PROVISION OF OR FAILURE TO PROVIDE SUPPORT SERVICES, EVEN IF VUZIX HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

9.8 VUZIX' MAXIMUM LIABILITY UNDER THIS LIMITED WARRANTY IS EXPRESSLY LIMITED TO THE AMOUNTS PAID BY RESELLER UNDER THIS AGREEMENT. IN THE EVENT OF END-USER CUSTOMERS OR ANY THIRD PARTIES, VUZIX' MAXIMUM LIABILITY UNDER THIS LIMITED WARRANTY IS EXPRESSLY LIMITED TO THE AMOUNTS THEY ORIGINALLY PAID FOR THE PRODUCT OR THE COST OF REPAIR OR REPLACEMENT OF ANY HARDWARE COMPONENTS THAT MALFUNCTION IN CONDITIONS OF NORMAL USE DUR ING THE APPLICABLE WARRANTY PERIOD

9.9 The foregoing paragraph (Section 9.7) shall be included with all Products sold by RESELLER to its customers.

10. RESELLER'S STATUS AND MISCELLANEOUS RESPONSIBILITIES

10.1 RESELLER is an independent contractor, not an employee of VUZIX. This Agreement does not create an employer-employee, a franchisor-franchisee or a principal-agent relationship between VUZIX and RESELLER. RESELLER is not authorized, nor will it represent that it has, any power, right or authority to enter into agreements for or on behalf of VUZIX, to create any obligation due or owed VUZIX, to accept service of process on VUZIX or to bind VUZIX in any manner.

10.2 VUZIX grants RESELLER an exclusive, royalty-free license to display one or more designated VUZIX trade-marks, logo types, trade names and insignia ("VUZIX Marks") in the Territory solely to promote, distribute and sell the Products, and to otherwise meet RESELLER's obligations under this Agreement. Any display of VUZIX Marks must be in good taste, in a manner that preserves their value as VUZIX Marks, and in accordance with written standards provided by VUZIX for their display and use. RESELLER will not use any name or symbol in a way, which may imply that RESELLER is an agency or branch of VUZIX. RESELLER will discontinue any such use of a name or mark as requested by VUZIX promptly upon notice. RESELLER will use commercially reasonable efforts to provide VUZIX with copies of any materials using the VUZIX Marks in advance of any public use. RESELLER will comply with any VUZIX suggestions it receives back in writing. Any rights or purported rights in any VUZIX Marks acquired through RESELLER's use belong solely to VUZIX, and any goodwill in the VUZIX Marks will accrue to VUZIX. Upon termination of this Agreement, RESELLER promptly discontinue any use of the VUZIX Marks and promptly remove the VUZIX Marks from all invoices, displays, telephone directories, trade literature and all other advertising medium. Failure to discontinue the use of VUZIX Marks as required hereunder shall constitute trademark infringement. VUZIX Marks may be used only on or in connection with the sale and marketing of the Products in the Territory.

10.3 RESELLER grants VUZIX the non-exclusive, royalty free right to display RESELLER's name or trademarks, service marks and logos ("RESELLER Marks") in advertising and promotional material solely for directing prospective purchasers of Products to RESELLER's selling locations. Any display of the RESELLER Marks must be in good taste, in a manner that preserves their value as RESELLER Marks, and in accordance with standards provided by RESELLER for their display. Any rights or purported rights in any RESELLER Marks acquired by VUZIX through this Agreement belong solely to

RESELLER, and any goodwill in the RESELLER Marks will accrue to the RESELLER. Upon termination of this Agreement, VUZIX agrees to use commercially reasonable efforts to promptly discontinue any use of the RESELLER Marks and promptly remove the RESELLER Marks from all invoices, displays, telephone directories, trade literature and all other advertising medium. Failure to discontinue the use of the RESELLER Marks as required shall constitute trademark infringement.

10.4 Each Party acknowledges that all manufacturing specifications and data, all Escrowed Materials, financial information, sales and marketing information, distribution agreements and their terms, repair, replacement and maintenance information and data related to the Products or this Agreement which are obtained by one Party (the "Recipient") from or about the other (the "Discloser") is commercially valuable confidential information (the "Confidential Information") of the Discloser. Each Party shall use the Confidential Information of the Discloser solely in connection with the distribution or manufacturing of the Products and the furtherance of this Agreement and shall not use or disclose the Confidential Information for any other purpose.

10.5 In the event that Confidential Information is exchanged, each Party will protect the Confidential Information of the other in the same manner in which it protects its own like proprietary, confidential, and trade secret information and will use it only for purposes of this Agreement. Information shall be considered Confidential Information If the Discloser furnishes such information in writing and marks such information as "Confidential" or if such information is provided orally, such information shall be considered Confidential Information if (a) the Discloser summarizes the content of oral disclosures which are proprietary or confidential within thirty (30) days of its communication, and (b) such information was identified as confidential or proprietary when orally disclosed. All such Confidential Information will remain confidential for the term of this Agreement plus five (5) years.

10.6 Notwithstanding sections 10.5 and 10.6, there is no obligation upon a Recipient with respect to Confidential Information which (a) was demonstrably in the Recipient's possession before the disclosure without restriction on its use or disclosure; (b) is or becomes a matter of public knowledge through no fault of the Recipient; (c) is rightfully received by the Recipient from a third party without a duty of confidentiality to the Discloser; (d) is disclosed by the Discloser to a third party without a duty of confidentiality on the third party; (e) is demonstrably independently developed by the Recipient without the use of any other Confidential Information; (f) is disclosed under (and only to the extent required by) operation of law; or (g) is disclosed by the Recipient with the Discloser's prior written approval.

11. TERM AND TERMINATION

11.1 This Agreement will have a term of five (5) years from the Effective Date and will renew automatically, subject to 11.3, on the fifth anniversary of the Effective Date for a further five (5) year period, unless RESELLER is then in breach of this Agreement.

11.2 RESELLER may terminate this Agreement at any time by giving VUZIX six (6) months prior written notice.

11.3 The “Minimum Business Volume” MBV requirements for the Territory for each measurement period along with bench marks for such minimums where they have not yet been finalized, are listed in Schedule B of this Agreement. New MBV requirements must be negotiated in good faith and in accordance with the bench marks set out in Schedule B for the automatic renewal in Section 11.1 to take place. This Agreement may be terminated by VUZIX if RESELLER fails to meet the sales volume goals established by VUZIX and RESELLER for any period, as specified in Schedule B to this Agreement.

11.4 The RESELLER’s Initial Funding Target, Initial Funding and Operational Date, Date of Determination for Minimum Cumulative Sales and Minimum Cumulative Sales Requirements, and Minimum Business Volumes requirements are listed in Schedule B of this Agreement. VUZIX shall have the right to terminate this Agreement under Section 11.6 if the RESELLER does not meet such requirements. Such termination shall be effective upon the giving of notice by VUZIX.

11.5 If either Party becomes insolvent, is unable to pay its debt when due, files for bankruptcy, is the subject of involuntary bankruptcy, has a receiver appointed, or has its assets assigned, the other Party may terminate this Agreement on thirty (30) days written notice and may cancel any unfulfilled obligations.

11.6 Either Party may terminate this Agreement because of a material breach by the other Party of this Agreement unless such other Party cures the breach within thirty (30) days after having been advised in writing of such breach by the non-breaching Party.

11.7 Upon termination or expiration of this Agreement in accordance with the terms of this Agreement, all amounts owed from either Party to the other Party shall immediately become due, and RESELLER shall not thereafter represent or hold itself out as an authorized VUZIX reseller or engage in any practices that might make it appear that RESELLER is still an authorized VUZIX reseller. Upon termination or expiration, RESELLER will immediately cease to be an authorized VUZIX reseller and will among other things, not use any VUZIX Marks and will cause all of its authorized sub-resellers to cease using any VUZIX Marks. Authorization of VUZIX to use any of RESELLER’s trade-marks will automatically cease upon such termination or expiration.

11.8 Upon termination or expiration of this Agreement, VUZIX reserves the right (without any obligation to do so) to repurchase from RESELLER, any or all Products then in the possession or under the control of RESELLER that are still unopened, in new merchantable condition and in their original packaging. Such repurchase shall be made at the actual price paid for such Products by RESELLER, FOB RESELLER’s principal place of business, less any and all amounts then owing, for whatever reasons, from RESELLER to VUZIX. Such right must be exercised by giving written notice thereof within Sixty (60) days from the date of expiration or from the date notice of termination was given, as the case may be.

11.9 Acceptance of orders by VUZIX after notice of termination has been given shall be construed as separate transactions and shall not operate as a renewal or revival of this Agreement or as a waiver of such termination. VUZIX reserves the right for any reason and in its sole discretion to accept or reject, in whole or in part, any such orders and apply any new terms of sale. If no new terms of sale are agreed to by the parties but the order is nevertheless accepted by VUZIX, then the applicable terms of this Agreement shall apply to such order.

11.10 All obligations concerning outstanding transactions, warranties, support, Products, intellectual property protection, limitations of liability and remedies, confidentiality, and the general terms and conditions will survive termination or expiration of this Agreement,

except that the provisions for confidentially will survive only through the periods set forth in this Agreement.

11.11 The Party terminating this Agreement pursuant to the express provisions hereof shall not incur any liability to the other Party by reason of termination of this Agreement either for compensation or damages on account of the loss of present or prospective profits or expenditures or investments or for any reason.

11.12 The term "Force Majeure" as employed in this Section means and includes the causes beyond the reasonable control of the Party so affected, including, but not limited to, war (declared or undeclared), hostility, riot, revolution, embargo, fire, earthquake, flood, or other acts of God. The Party so affected shall use its best efforts to provide the other Party with a prompt written notice within fourteen (14) days after occurrence thereof.

11.13 If the performance of this Agreement or any obligation hereunder is prevented, delayed, restricted or intervened with by reason of the Force Majeure, the Party so affected shall be excused from such performance to the extent of such prevention, delay, restriction or interference and such shall not constitute a breach of this agreement, provided, however, that the Party so affected shall use its best efforts to avoid or remove such causes of non-performance and whenever those are removed, it shall commence and/or continue performance promptly. Notwithstanding the foregoing, nothing shall relieve the RESELLER from any payment obligations under this Agreement.

11.14 Notwithstanding the foregoing, in the event that the Force Majeure remains uncured for a period of Two (2) months, the Party not so affected may, at no charge and without any liability to the Party so affected (other than the obligation to pay amounts due or to become due and the obligation to continue to be bound by the terms of this Agreement that expressly or by their nature survive termination), cancel all orders and terminate this Agreement on prior written notice to the Party so affected.

12. ASSIGNMENTS AND OPTIONS TO BUY

12.1 This Agreement and the rights of RESELLER hereunder may not be assigned or otherwise transferred by RESELLER without the prior written consent of VUZIX, which shall not be unreasonably withheld or delayed; provided that it shall not be unreasonable for VUZIX to withhold its consent to such an assignment or transfer for any negative tax or corporate structure reasons or if the proposed assignment or transfer is to be made to a supplier of parts or components to VUZIX, to a party that performs manufacturing services of the Products or Key Components for or on behalf of VUZIX, to a Competitor of VUZIX or to an Affiliate (as both defined in Section 12.2) of any of such persons.

12.2 If RESELLER receives a bona fide offer (an "Offer") from a third party that is a Competitor of VUZIX (as hereinafter defined) (the "Offeror") to purchase an Interest (as hereinafter defined) in RESELLER, VUZIX shall have a right of first refusal to purchase such Interest, on the same terms and conditions as those proposed by the Offeror. If RESELLER receives and wishes to accept an Offer, it shall send a written notice (the "Notice of Offer") to VUZIX, which shall set forth the identity of the Offeror, the Interest proposed to be sold, the sale price, the manner of payment thereof, and all other terms and conditions of the Offer. VUZIX shall then have the right, to be exercised by notice in writing given to RESELLER within 30 days of the receipt of the Notice of Offer, to acquire such Interest, on the same terms and conditions as are contained in the Notice of Offer. During the 30 day period following the Notice of Offer, VUZIX shall have the right to conduct such due diligence with respect to RESELLER and the Interest as it may reasonably require, and RESELLER shall cooperate in such due diligence review in all such respects as VUZIX may reasonably require. If (and provided that it has received the right to conduct such due review) VUZIX does not exercise its right of first refusal within 30 days of the Notice of Offer, then RESELLER may sell the Interest to such third party on the same (but not

on any other) terms as contained in the Notice of Offer. If it does not consummate such sale within such period, its right to sell to the third party free of VUZIX's right of first refusal shall expire.

For purposes of this Section 12.2,

"Interest" means an equity interest, or a right to acquire or that is convertible into an equity interest, as a result of the ownership of which a person or entity has or has the right to acquire the ability to (a) control the business or operations of RESELLER or (b) own more than 50% of the equity interests in or assets of RESELLER,

"Competitor" shall mean a party that, at the time of the Offer, (a) is selling products similar to the Products or (b) that has publicly stated its intention to sell such products or (c) has as its primary business the manufacture and resale or OEM of audio, video, computer, video game, or entertainment hardware products to the consumer electronics sector, or any Affiliate of such a person. Competitor does not include any entity whose primary business is being a wireless cell phone operator or carrier; a financial institution; video game online operator or manufacturer (software publisher); or a content provider.

"Affiliate" means any person or entity that controls, is controlled by or is under common control with another person or entity.

12.3 (a) If at any time after the expiry of the initial 5 years terms of this Agreement VUZIX or its shareholders shall enter into negotiations with a third party, or receive a proposal from a third party, regarding (i) the sale or transfer of substantially all of the equity interests of VUZIX, whether by purchase, merger or otherwise, (ii) the sale or transfer of substantially all of the assets of VUZIX, whether by purchase, merger or otherwise or (iii) the sale or transfer of those assets of VUZIX that are used in the production, distribution and sale of the Products, whether by purchase, merger or otherwise (together, a "Sale Transaction"), then VUZIX shall give RESELLER notice of the proposed Sale Transaction (the "Sale Transaction Notice"), and RESELLER shall treat all information regarding such discussions or proposals (including the fact thereof) as Confidential Information in accordance with Article 10 of this Agreement.

(b) In the event of a Sale Transaction, VUZIX shall have an option to convert RESELLER's right to distribute Products in the Territory to a nonexclusive right (that is subject in all other respects to the identical terms and conditions contained in this Agreement). Such option shall be exercised, if at all, in the Sale Transaction Notice, but shall not be effective unless the Sale Transaction is completed in accordance with its terms. The amount to be paid by VUZIX for such conversion, as the case may be, shall be the Fair Value of the rights converted, as determined in accordance with Section 12.3 (c) herein.

(c) For purposes of this Section 12.3, the Fair Value shall be the difference as of thirty (30) days prior to closing date of the Sale Transaction between RESELLER's exclusive and RESELLER's nonexclusive right to resell the Products and shall be determined by the average valuations of two appraisers who are experienced in valuing business for purposes of sale, one of which shall be selected by each of the parties; provided, however, that if the appraisals differ by more than 10% of the higher appraisal, the two appraisers shall select a third appraiser who is similarly qualified, and (x) if the third appraiser's appraisal is between the first two, the Fair Value shall be as determined by the average of the first two and (y) if the third appraisal is either higher or lower than both of the first two appraisals, then the third appraisal shall be used as Fair Value. All fees and other costs related this Section 12.3, including all appraisal fees incurred by the parties pursuant to Section 12.3(c) herein, will be paid by VUZIX. The Fair Value will be determined by the appraisers taking into account, among other things considered

relevant, the amount of time remaining in the then current renewal term of this Agreement.

(d) VUZIX may, at its option, pay the Fair Value amount determined pursuant to Section 12.3(c) in cash or in shares of its Common Stock, based upon the valuation of such shares on the closing date of the Sale Transaction. The Fair Value amount determined pursuant to Section 12.3 (c) will be paid upon completion of the Sale Transaction, or such other time as expressly agreed by RESELLER.

(e) If the Sale Transaction involves the receipt by VUZIX's shareholder of the securities of another entity, VUZIX will use commercially reasonable efforts to have any such securities received by RESELLER or its shareholders treated in the same manner, and subject to the same rights and restrictions as are applicable to the securities received by VUZIX's shareholders in such Sale Transaction, provided that RESELLER and its shareholders satisfy such obligations in connection with such securities as are applicable to other shareholders of VUZIX.

(f) Other than as expressly set out under Section 12.3(b), all other rights and obligations of the parties under this Agreement will continue unaffected by the application of Section 12.3(b)

(g) This Section 12.3 will not affect or limit the right of VUZIX to (i) acquire the RESELLER or any of its securities on the open market or through a tender offer if the RESELLER is a public company; or (ii) negotiating to buy the RESELLER outright; (iii) or negotiating to buy-out this Agreement or any of the RESELLER's right hereunder.

12.4 (a) If VUZIX is involved in a Sale Transaction that closes with a third party within the first 5 year term of this Agreement, then at any time after the expiry of the initial 5 year term of this Agreement, then the other party to the Sale Transaction shall have an option exercisable notice to RESELLER 3 months in advance to convert RESELLER's right to distribute Products to a nonexclusive right (that is subject in all other respects to the identical terms and conditions contained in this Agreement), subject to such party's or VUZIX's payment ("Compensation") to the RESELLER of the difference as of the date of the notice of the exercise of such option between the value of RESELLER's exclusive and the value of RESELLER's nonexclusive right to resell the Products in the Territory for the remainder of the renewal term of this Agreement. The amount of such values and the difference between them shall be determined in accordance with Section 12.4 (b) herein.

(b) For purposes of this Section 12.4, the Compensation shall be determined by the average valuations of the difference between such exclusive and nonexclusive rights as determined by two appraisers who are experienced in valuing business for purposes of sale, one of which shall be selected by each of the parties; provided, however, that if the appraisals differ by more than 10% of the higher appraisal, the two appraisers shall select a third appraiser who is similarly qualified, and (x) if the third appraiser's appraisal is between the first two, the Compensation shall be as determined by the average of the first two and (y) if the third appraisal is either higher or lower than both of the first two appraisals, then the third appraisal's valuation shall be used as the Compensation. All fees and other costs related this Section 12.4, including all appraisal fees incurred by the parties pursuant to Section 12.4(b) herein, will be paid by such other party to the Sale Transaction or VUZIX, as the case may be. The form and settlement of the Compensation will be negotiated by the parties, acting reasonably, at that time. If the parties are unable to agree on the form and settlement of the Compensation, other than in the form of cash, within thirty (30) days after the determination of the Compensation amount determined by the appraisers, then the option granted to the new owner (the

other party to the Sale Transaction) will expire and the exclusive right granted to RESELLER herein will not be converted into a nonexclusive right. The Compensation will be determined by the appraisers taking into account, among other things considered relevant, the amount of time remaining in the then current renewal term of this Agreement, namely the entire 5 year renewal term.

(c) Other than as expressly set out under Section 12.4 (a), all other rights and obligations of the parties under this Agreement will continue unaffected by the application of Section 12.3(b)

12.5 RESELLER agrees to offer VUZIX the option to purchase up to $[**********] of any financing that it undertakes in its efforts to achieve its Initial Funding Targets (as defined in Schedule B) by December 31, 2009. The VUZIX investment option would be on the same terms and conditions as all the RESELLER's other investors and adequate time is to be given to VUZIX to evaluate this investment.

13. CHOICE OF LAW AND CORRECTIVE CHANGES

13.1 This Agreement shall be governed by and construed in accordance with the laws of the State of New York, USA without regard to its conflict or choice of law provisions.

13.2 The parties agree to make any required reasonable changes within 60 days from the signing of this Agreement, to make the main terms of this Agreement enforceable in the Territory and with no negative tax or other consequences to VUZIX and to ensure that this Agreement does not have any unintended consequences to either party.

13.3 Both parties acknowledge that they have obtained their own legal representation in the negotiation of this Agreement. In the construction of any terms in this Agreement, no term shall be construed against any Party on the basis of that Party having drafted that language.

14. ARBITRATION

14.1 RESELLER and VUZIX agree to first enter into negotiations to resolve any controversy, claim or dispute ("Dispute") arising under or relating to this Agreement. The Parties agree to negotiate in good faith to reach a mutually agreeable resolution of such Dispute within a reasonable period of time. If the Parties are unable to resolve any Dispute within 30 days, or such other period agreed to in writing by the Parties, the Dispute will be referred to and finally resolved by binding and final arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. A total of three (3) arbitrators shall be appointed in accordance with the then prevailing rules. If initiated by VUZIX, the arbitration shall take place in Vancouver, British Columbia. If initiated by RESELLER the arbitration shall take place in the County of Monroe, New York, USA. The arbitrator(s) shall be bound to, follow the provisions of this Agreement in resolving the dispute, and may not award punitive damages. The decision of the arbitrator(s) shall be final and may be entered or enforced in any court of competent jurisdiction.

15. WAIVER

15.1 In the event that either VUZIX or RESELLER waives any right under any provision of this Agreement, such waiver by either Party shall not constitute a waiver with regard to any other rights set forth in this Agreement or a waiver of the provision in the future.

16. VALIDITY OF AGREEMENT

16.1 VUZIX and RESELLER agree that if any portion of this Agreement is found to be invalid such portion may be severed from the Agreement, such a finding does not serve to invalidate any other provision of this Agreement, nor does such a finding serve to invalidate this Agreement as a whole, unless such finding causes this Agreement to fail of its essential purpose.

17. GENERAL

17.1 All notices that are required under this Agreement will be in writing and will be considered given as of twenty-four (24) hours after sending by electronic means, facsimile transmission, overnight courier, or hand delivery, or as of four (4) days of certified mailing and appropriately addressed to the locations noted at the beginning of this Agreement, or elsewhere as directed by each Party, provided that each such form of delivery shall be confirmed by appropriate receipt of delivery.

17.2 This Agreement constitutes the entire understanding between VUZIX and RESELLER, and supersedes any previous communications, representations or agreements between the Parties, whether oral or written, regarding transactions hereunder. No modification of this Agreement will be binding on either Party unless made in writing and signed by both Parties.

17.3 Parties hereto agree that neither will refer to this Agreement or to the presence thereof in any advertising material or otherwise, or disclose the terms or conditions of this Agreement to a third party without prior written consent of the other Party, such consent not to be unreasonably withheld, conditioned or delayed.

17.4 Time is of the essence in this Agreement.

18. SIGNATURE

18.1 Each Party warrants that the person signing is its duly authorized representative, that they have read and understood this Agreement, that the Party enters into this Agreement freely to advance its economic interests and that signature binds the Party to the obligations imposed upon it by this Agreement.

18.2 This Agreement may be executed in counterparts, each of which, when so executed, will be deemed to be an original copy hereof, and all such counterparts together will constitute one single agreement. Either Party may deliver a counterpart signature page by electronic transmission.

VUZIX CORPORATION	**YUVIEW HOLDINGS LTD.**
/s/ Paul J. Travers	/s/ Steve Babtabue
Signature	Signature
Paul J. Travers	Steve Babtabue
Print Name & Title	Print Name & Title
August 27, 2009	August 27, 2009
Date Signed	Date Signed

SCHEDULE A

TERRITORY

RESELLER's exclusive Territory is Mainland China, Hong Kong, Macau, and Taiwan

SCHEDULE B

PRODUCTS and MINIMUM BUSINESS VOLUMES

In this Agreement "Products" means all present and future consumer video eyewear products produced and/or sold by VUZIX or its licensed third party partners or OEMs, including any video eyewear products incorporating Key Components and all improvements and accessories, and any other consumer near eye display products produced by VUZIX in the present and future. A Unit means a single Product.

Minimum Business Volume ("MBV") Requirements:

- MBV refers to the minimum unit sales of Products by RESELLER or RESELLER purchases of complete sets of Key Components incorporated into Products in the Vendor manufacturing stage of this Agreement.
- The initial or first Date of Determination shall be the later of 18 months after November 30, 2009. The Minimum Cumulative sales or MBV for this first Date of Determination is [*********] Units. Product compliance testing per Chinese CCC rules ("CCC") will commence with either the Wrap 310 or Wrap 920 Product from VUZIX, as chosen by RESELLER. RESELLER is responsible for all costs of obtaining certifications and compliance with any regulatory CCC rules required for the import, sale or manufacturing of all Products in the Territory. VUZIX and RESELLER will cooperate fully with each other in the getting Territory regulatory approvals and VUZIX will use its best commercial efforts and at its own cost to make any necessary modifications to its standard Products to comply with any such regulations or certifications. To the extent that VUZIX is required to make hardware changes to the Products and if their time to implement those changes totals more than 2 weeks for further compliance testing with CCC, then the 18 month period's first Date of Determination will be extended by the amount of time required for such changes (i.e. a 5 week Product change would mean the 18 month period gets extended out by 5 weeks).
- VUZIX and RESELLER will negotiate in good faith at least 60 days prior to May 31, 2011 an update of the MBV on May 31, 2011, and subsequently on an annual basis unless otherwise agreed by the parties.
- In the event the parties cannot agree upon a MBV for any period after good faith negotiations, the Agreement shall remain in good standing until such time as the matter of the MBV has been referred to and determined by arbitration as set forth in the Agreement. The ultimate determination from the arbitration process will be retroactively applied to the beginning of the period for the purposes of calculating the MBV for the 12 month period. If the matter of the MBV is submitted to arbitration, both parties agree that the key bench marks to be considered by the arbitrators in setting new MBV for the parties are:
    - VUZIX' Unit sales volumes in each of North America and in Europe for the prior calendar year period, are to be averaged and considered as a starting MBV from which the following factors (up and down) are to be considered in determining the new MBV for the Territory:
        i. The average Unit volumes in North America and Europe are to exclude unusual Unit volumes caused by wireless carrier OEM subsidies and partnership arrangements which artificially reduces end user retail buying prices causing an increase in unit volumes because of the implied lower end user buying price. This exclusion from the average Unit volumes is only apply so long as similar wireless carrier or OEM subsidies and partnership arrangements are not taking place in the Territory.

ii. If the market share of the Products in the Territory is greater than that of VUZIX in the North American and in Europe.

iii. The per-capita sales in Japan are to also be compared against the average per-capita sales in the North America and Europe. In the event Japanese per-capita sales are less and it is reasonably due primarily to cultural or other "Asian market influences" which negatively affect sales, the Unit sales of the North America and the European market places are to be discounted on a reasonable basis when used as the benchmarks for the Territory.

iv. VUZIX Product development timelines and the timeliness of new or improved Products which result in increased competitive advantage to the Products.

- In the event the RESELLER License becomes non-exclusive as per Section 1.4 of this Agreement, the criteria for the determination of the Minimum Business Volumes for each annual period after the first Date of Determination will be renegotiated and reduced accordingly. If the RESELLER falls below [***]% of the total annual unit volume of VUZIX based video eyewear Products within the Territory, then VUZIX will have the option to terminate this Agreement as per Section 11, for RESELLER's lack of performance.

Initial Funding Target for RESELLER: RESELLER will raise a minimum of $[**********] and open an office in Beijing by [**********].

Initial Funding and Operational Date: [**********]

Minimum for Manufacturing Amount: [**********] units of Product and the RESELLER shall provide VUZIX with a certificate advising VUZIX that in the RESELLER's opinion RESELLER has sufficient capital to undertake manufacturing operations with a viable business model of at least 12 months and supporting materials to validate the certificate.

Minimum Cumulative sales of Products required by Date of Determination: [*********] units of Product.

SCHEDULE C

PRICING and PAYMENT TERMS

Pricing:

- All prices are in US dollars, CIF Beijing
- Products include a one-year warranty provided by VUZIX to the end user customer
- Products are assumed packaged with English and Mandarin manual
- Pricing to RESELLER is to be the best price for equivalent volumes offered by VUZIX to its best resellers for the same Product, plus all costs of CIF Beijing added to the RESELLER's buying price.
- As a further reasonableness test, discounts offered to RESELLER will at least be a great as the average gross margin report reported on VUZIX in its financial statements.
- All pricing excludes any transfer pricing used by VUZIX worldwide and its affiliates.
- All pricing excludes any limited time discounts regarding clearance of products and end life product changeover, provided similar offers have been made to RESELLER in any given calendar quarter. Such discounting will only be available for orders received by VUZIX after its official determination of its clearance activities and are not to be retroactively applied.
- The following pricing adjustments (whether paid by Credit Memo, free products, or a reduction in the net selling price) are not to be factored in to the determination of "best price" unless they are given generally to North American resellers consistently and not considered marketing expenses:
    - Promotional allowances,
    - Market Development Funds,
    - Catalog fees,
    - Stocking fees, new SKU and Planogram allowances,
    - Coop advertising allowances,
    - New store opening allowances,
    - Demo allowances including Point of Purchase demonstrators,
    - Other advertising or marketing related merchandise allowances

Payment Terms:

- All payments will be made in US dollars and secured by Letter of Credit acceptable to the bank providing credit facilities to VUZIX as collateral for such credit facilities.
- VUZIX must wait 30 days after delivery prior to presenting Letters of Credit for payment.

SCHEDULE D

MANUFACTURING BY RESELLER IN THE TERRITORY

In this Agreement, “Intellectual Property” means all patents, patent applications, copyright, trade-marks, trade secrets, know how and any other intellectual property necessary for the manufacture of the Products.

Description of Key Components (estimate based on VUZIX’s currently planned product line):

Wrap:

- [**********]
  - [**********]†
  - [**********]
  - [**********]
  - [**********]
  - [**********]
- [**********]

† [**********]

Blade 2D:

- [**********]
  - [**********]
    - [**********]
  - [**********]
  - [**********]
  - [**********]
  - [**********]
- [**********]†
  - [**********]
- [**********]

† [**********]

Scanning Blade

- [**********]
  - [**********]
    - [**********]
  - [**********]
  - [**********]
  - [**********]
  - [**********]
  - [**********]
- [**********]†
  - [**********]
- [**********]

†[**********].

SCHEDULE E

QUALITY CONTROL

A. VUZIX agrees to strive for minimal defects and continuous quality excellence as part of its standard quality levels, set formally and or informally, for its consumer product lines. VUZIX warrants that it shall ship to RESELLER only those Products or Key Components which have passed the inspection standard established by VUZIX and that all the Products or Key Components shipped hereunder shall conform to their specifications and be free from defects in design, materials and workmanship, and will perform in accordance with their specifications for the period disclosed in the Product manual and warranty documentation included by VUZIX with each Product.

B. VUZIX shall cause to establish and maintain a Quality Assurance Program with respect to the Products and Key Components reasonably necessary to assure their performance and the protection of RESELLER's goodwill. As part of such Program, VUZIX shall cause to have the Products and Key Components inspected and shall provide to RESELLER a Certificate of Compliance with each shipment of Products or Key Components and shall make available to RESELLER quality records as and when reasonably requested including but not limited to, copies of VUZIX's quality procedures, manuals and certifications.

C. VUZIX will pass through the quality specifications received and warranted by our component suppliers, including those for Key Components, to the final product specifications and quality levels of the final Key Component or Product being manufactured and supplied to the RESELLER

D. If VUZIX licenses RESELLER for the production of any particular Product (during the Manufacturing Stage), the RESELLER shall be responsible for all QA Control for that Product model other than for that of Key Components.

E. During the production process any changes, either from VUZIX or requested by the RESELLER, will be controlled and communicated through VUZIX's standard Engineering Change Notice ("ECN").

F. In the event there is a quality problem with Products or Key Components delivered to the RESELLER, RESELLER has the right to request by way of an Corrective Action Request ("CAR") that an analysis and corrective measures, if applicable, be used to identify and fix the quality problem. The responses by VUZIX to the CAR will identify the corrective action required to be implemented to fix any identified quality problem. Further, VUZIX shall issue ongoing status reports on a timely basis regarding the implementation of the corrective actions, as defined in VUZIX's Quality Assurance Program. In each CAR, RESELLER shall classify the level of severity for the problem it is reporting (critical, major and minor). Vuzix agrees respond promptly (within 14 days) from the time of the initial report by CAR as per its Quality Assurance Program.

G. If Vuzix decides to change the Product being supplied to the RESELLER, Vuzix shall given notice to RESELLER as per Section 4.3 of this Agreement prior to making any changes.

H. VUZIX may discontinue manufacture of any models of the Products or Key Components offered hereunder only upon three (3) months prior notice to RESELLER. RESELLER may place end-of-life POs for Products or Key Components and spare parts during this period. VUZIX will accept delivery schedules for end-of-life spare parts, Products, and Key Components up to three (3) months after such end-of-life PO has been placed, and will have

no obligation to supply spare parts or discontinued Key Components thereafter other than for the duration of applicable warranty.

I. Vuzix shall keep commercially reasonable records of all quality measures implemented by VUZIX and related documentation, such as, but not limited to test results and root cause analysis for a period of at least two (2) years from the last delivery of the relevant Products to RESELLER.

J. For purposes such as Product safety notification, operational problem correction and contact compliance, RESELLER will use commercially reasonable efforts to maintain records of second-tier RESELLER and/or customer purchases within the Territory, which should at a minimum must include such purchaser's name, address, phone number, date of sale, Product numbers, quantities, serial numbers, and shipment address.

K. For operational purposes in supporting the provision of warranty services to customers within the Territory, the parties will periodically negotiate the setup of adequate replacement Products and/or Key Component inventories so that individual warranty servicing and shipping costs may be minimized. Such activities can include the shipment of replacement parts and/or Products to the RESELLER, including the provision of extra (no-charge) warranty inventory that could be included with each RESELLER shipment or handled by separate shipments periodically. Any inventories of warranty spare parts or Products will be monitored by the parties and adjusted periodically to provide an adequate level of timely customer support regarding warranty items and overall warranty support costs.

SCHEDULE F

WARRANTIES (for VUZIX current Product line)

This Warranty will be identical to Vuzix' standard US warranty subject to required changes to make the warranty in compliance with local law in the Territory.

Important Safety Instructions

Follow these safety instructions when using or handling your VUZIX Video Eyewear to reduce the risk of fire, electric shock, and injury to persons and property.

1. READ ALL OF THE INSTRUCTIONS AND SAFETY INFORMATION PROVIDED BEFORE USING THIS PRODUCT.
2. Use the product only for its intended use, as described in this manual.
3. Close supervision is needed when this product is by or near children.
4. Children under the age of seven (7) are still learning to focus and track with their eyes. Their vision is still immature. For these reasons, THIS PRODUCT SHOULD NOT BE USED BY CHILDREN UNDER THE AGE OF SEVEN (7).
5. A very small portion of the population may experience epileptic seizures when viewing certain kinds of flashing lights or patterns that are commonly present in our daily environment. These persons may also experience seizures while watching some kinds of television pictures or playing certain video games on regular monitors, including the use of a display system such as this. These effects can be increased due to the large size of the video screens in this device. Therefore consult a physician if you have any epileptic condition before using this device or if you experience any of the following symptoms while using this device: altered vision, muscle twitching, other involuntary movements, loss of awareness of your surroundings, mental confusion, and/or convulsions.
6. Immersive video, whether viewed on a regular TV, a movie theater screen or a VUZIX video display, can potentially have adverse effects on the user including motion sickness, perceptual after effects and disorientation, and decreased postural stability and eye strain. Take frequent breaks to lessen the potential of these effects, as is commonly suggested for other items, such as keyboards and computer monitors, that you may tend to fixate or concentrate on. If your eyes show signs of fatigue or dryness or if any of the above symptoms is noted, immediately discontinue use of this device and do not resume using it for at least 30 minutes after the symptoms have fully subsided.
7. Permanent or temporary hearing loss or impairment can result from excessive volume levels emitted from the headphones. Always adjust the volume to a safe level BEFORE wearing the product or headphones.
8. Always be aware of the world around you. This product will immerse you in realistic sights and sounds, possibly causing you to forget about the real world around you and the threats to your well being and the well being of others. DO NOT use this product near stairs, balconies, or other things that can be tripped over, run into, knocked down or fallen over. This product should only be used while you are seated and never while using sharp or potentially dangerous objects, operating any form of mechanical device, driving motor vehicles, or performing any act that normally requires you to see what you are doing.
9. This product may be tethered to a power outlet and cables may extend between components. Be careful that these cords do not tangle around you or pose a potential threat to the safety of others.
10. Do not disassemble this product. If service work is required, contact VUZIX using the Support contact information shown in this manual.
11. Do not pull or yank on the cable, kink any of the cables or tie them in sharp or tight knots. Do not hang the product or allow it to be suspended by any of its cables. To disconnect cables, pull on the cable connector. Cables damaged by such actions are not covered by the product's limited warranty.

12. Do not drop, strike, or cause any portion of the product to be struck or shaken aggressively. Such actions may damage the product and void your warranty.

13. Save these instructions.

Immediately unplug the product from external power sources if:

- The power adaptor, power cord or USB cord is damaged or frayed.
- Liquid has been sprayed, splashed or poured on the product.
- Any component of the product has been dropped or damaged.
- The product exhibits any distinct change in performance.

Battery Safety Instructions

- Batteries contain toxic materials. Do not burn, disassemble, mutilate, or puncture the batteries.
- Do not dispose of batteries in a fire.
- Dispose of batteries in a method that is consistent with your local laws and regulations.

Vuzix Hardware Product Limited Warranty

Vuzix warrants that your Vuzix hardware product shall be free from defects in material and workmanship for the length of time specified in the Warranty Period (one year), beginning from the date of purchase. If your Vuzix hardware product is used for commercial purposes (including rental or lease) the Warranty Period shall be reduced to ninety (90) days from date of purchase. Except where prohibited by applicable law, this warranty is nontransferable and is limited to the original purchaser and does not apply to anyone else, including anyone to whom you later make any transfer or sale. This warranty gives you specific legal rights, and you may also have other rights that vary under local laws, some of which are not affected by the warranties in this Limited Warranty.

This Limited Warranty does not cover, and no warranty of any kind is provided with respect to any subjective or aesthetic aspects of the hardware product. Vuzix does not warrant that the operation of the product will be uninterrupted or error-free. The limited warranty stated above is the only warranty made to You and is provided in lieu of all other express or implied warranties and conditions (except for any non-disclaimable implied warranties that exist), including any created by any other documentation or packaging. No information or suggestions (oral or in a record) given by Vuzix, its agents, affiliates, dealers or suppliers or its or their employees or agents, shall create a warranty or condition or expand the scope of this Limited Warranty. Any software distributed with the hardware product by Vuzix with or without the Vuzix brand name is not covered under this Limited Warranty. Refer to the licensing agreement accompanying the software (viewable upon its installation), for details of your rights with respect to its use.

Remedies

Vuzix's entire liability and your exclusive remedy for any breach of warranty shall be, at Vuzix's option, (1) to repair or replace all or part of the hardware, 2) exchange the hardware with a product that is new or which has been manufactured from new or serviceable used parts and is at least functionally equivalent to the original product, or (3) to refund the price paid by You less reasonable depreciation based on your actual use, provided that the hardware is returned to the point of purchase or such other place as Vuzix may direct with a copy of the sales receipt or dated itemized receipt. Except where prohibited by applicable law, all shipping and handling costs associated with transport (including packaging) for warranty service shall be at your expense. Vuzix may, at its option, use new or refurbished or used parts in good working condition to repair or replace any hardware product. Any replacement hardware product will be warranted for the remainder of the original warranty period or thirty (30) days, whichever is longer or for any additional period of time that may be applicable in your jurisdiction. This warranty does not cover problems or damage resulting from (1) Acts of God, power surge, misuse,

abuse, negligence, accident, wear and tear, mishandling, misapplication, or other causes unrelated to defects in the hardware device (2) any unauthorized repair, modification, tampering or disassembly; (3) improper operation or maintenance, usage not in accordance with product instructions or connection to improper voltage supply; or (3) use of consumables, such as replacement batteries, not supplied by Vuzix except where such restriction is prohibited by applicable law or (4) use of the products in connection with any hardware or software other than recommended by Vuzix in the documentation accompanying the product.

How to Obtain Technical Support

Technical support is defined as assistance with questions on issues about the Vuzix hardware product. Technical support for hardware and its software is available for the first ninety (90) days from date of product purchase. Your dated sales or delivery receipt, showing the date of purchase or lease of the product, is your proof of the purchase or lease date. You may be required to provide proof of purchase or lease as a condition of receiving software technical support. The addresses and technical service contact information for Vuzix can be found in the documentation accompanying your product and on the web at our global site: www.vuzix.com.

How to Obtain Warranty Support

Vuzix is the warrantor under this Limited Warranty. Before submitting a warranty claim, we recommend you visit the support section at www.Vuzix.com for technical assistance. Warranty claims cannot be processed through the point of purchase and any other product related questions should be addressed directly to Vuzix. The addresses and customer service contact information for Vuzix can be found in the documentation accompanying your product and on the web at our global site at www.vuzix.com, which will also identify any Vuzix subsidiary or branch serving your country and its local address. You may also write to: Vuzix Sales Support, 75 Town Centre Drive, Rochester, NY 14623, USA.

Limitation of Liability

18.3 VUZIX SHALL NOT BE LIABLE FOR ANY SPECIAL, INDIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES WHATSOEVER, INCLUDING BUT NOT LIMITED TO LOSS OF PROFITS, REVENUE OR DATA (WHETHER DIRECT OR INDIRECT) OR COMMERCIAL LOSS FOR BREACH OF ANY EXPRESS OR IMPLIED WARRANTY ON YOUR PRODUCT EVEN IF VUZIX HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. VUZIX's maximum liability under this limited warranty is limited, at Vuzix's option, to the amounts originally paid by you for the applicable hardware product or the cost of repair or replacement of any hardware components that malfunction in conditions of normal use during the applicable warranty period. Some jurisdictions do not allow the exclusion or limitation of special, indirect, incidental or consequential damages, so the above limitation or exclusion may not apply to you, but the remainder of this Limited Warranty shall remain in full force and effect.

Duration of Implied Warranties

EXCEPT TO THE EXTENT PROHIBITED BY APPLICABLE LAW, ANY IMPLIED WARRANTY OR CONDITION OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ON THIS HARDWARE PRODUCT IS LIMITED IN DURATION TO THE LIMITED WARRANTY PERIOD STATE ABOVE FOR YOUR PRODUCT. Some jurisdictions do not allow limitations on how long an implied warranty lasts, so the above limitation may not apply to you. Please note that in the European Union, any warranty period less than two years shall be increased to two years except in the case of use for commercial purposes.

SCHEDULE G

List all IP protection applied for by VUZIX within the Territory for current and future Products — as of June 30, 2009. New applications and issues are to be updated at least once each calendar year.

Matter	Type	App Number	File Date	Pat/Reg Number	Issue Date	Status	Title
82	D	200530016861.0	30-May-05	ZL200530016861.0	24-Oct-06	ISSUED	VIRTUAL DISPLAY EYEGLASSES
85	D		30-May-05	200530016863.X	25-Oct-06	ISSUED	PORTABLE VIRTUAL DISPLAY
[*****]	[***]	[*****************]	[*************]	=	=	FILED	[*****************]
[*****]	[***]	[*****************]	[*************]	=	=	FILED	[*****************]
[*****]	[***]	[*****************]	[*************]	=	=	FILED	[*****************]
[*****]	[***]	[*****************]	[*************]	=	=	FILED	[*****************]
[*****]	[***]	[*****************]	[*************]	=	=	FILED	[*****************]
[*****]	[***]	[*****************]	[*************]	=	=	FILED	[*****************]
[*****]	[***]	[*****************]	[*************]	=	=	FILED	[*****************]
[*****]	[***]	[*****************]	[*************]	=	=	FILED	[*****************]
[*****]	[***]	[*****************]	[*************]	=	=	FILED	[*****************]
227	U		13-May-98	ZL 98109836.3	12-Jan-05	ISSUED	Video Image Viewing Device and Method
	[***]	[*****************]	[*************]			TBD	[*****************]
	[***]	[*****************]	[*************]			TBD	[*****************]
	[***]	[*****************]	[*************]			TBD	[*****************]
	[***]	[*****************]	[*************]			TBD	[*****************]

D = Design Patent
U = Utility Patent
T = Trademark

Ex 10.20

Convertible Promissory Note

$500,000.00 September 19, 2006

FOR VALUE RECEIVED, Icuiti Corporation, a Delaware corporation with an address at 75 Town Centre Drive, Rochester, NY 14623 (" Maker"), promises to pay to the order of Sally Hyde Burdick (" Payee"), the principal sum of Five Hundred Thousand Dollars ($500,000.00), with interest at the rate of 10% per annum, in accordance with the terms of this Note; provided that so long as an Event of Default (as hereinafter defined), or any event which with notice or passage of time or both would constitute an Event of Default, shall exist and be continuing, interest shall accrue daily at the rate of eighteen percent (18%) per annum.

1. Payments. Maker shall pay the entire principal balance, plus all accrued and unpaid interest thereon, on January 31, 2009. All payments shall be in lawful money of the United States. Payments shall be made to Payee at One Masters Cove, Pittsford, New York 14534, or at such other place as Payee or any subsequent holder of this Note may designate to Maker in writing.

2. Prepayment. The indebtedness evidenced by this Note may be prepaid at any time and from time to time, in whole or in part without premium or penalty, but with accrued interest to the date of prepayment on the amount of principal being prepaid; provided, however, that the Maker shall give the Payee not less than thirty (30) days advance notice of any such prepayment.

3. Optional Conversion. The Payee may at any time and from time to time prior to the maturity date of this Note, or, if Maker elects to prepay this Note or a portion hereof or interest hereon prior to maturity pursuant to the provisions of Section 2 hereof, at any time prior to the date of such prepayment or interest payment, convert all or any portion of the principal of this Note and the accrued interest thereon into whole shares of the $.001 par value Common Stock of Maker (or such Common Stock as Maker or its successor shall be authorized to issue on such date of conversion), upon surrender of this Note to Maker at its principal office, duly endorsed or signed in blank, and accompanied by a written subscription in form annexed hereto as Exhibit "A". The conversion price of this Note (hereinafter referred to as the "Conversion Price") shall be 26.67 cents ($0.2667) per share, subject to adjustment as set forth below. Payee's right to convert this Note as set forth herein shall be subject to the following terms and conditions:

a. Interest shall cease to accrue on any portion of the principal amount of this Note converted pursuant to the provisions of this Section 3, immediately upon, and as of, the conversion thereof. As promptly as shall be practicable after the surrender of this Note for conversion in whole or in part, Maker will issue and deliver to the Payee the number of whole shares of Common Stock (or other equity securities) into which this Note shall be so converted, and a new Note for any unconverted portion hereof and any cash payable in lieu of the issuance of any fractional share or script representing a fractional share. Such conversion shall for all purposes be deemed to have been effected at the close of business on the day of such surrender, or, if such day shall not be a business day, at the close of business on the next succeeding business day.

b. Notwithstanding the other provisions of this Section 3, Maker reserves the right to delay giving effect to any conversion until the Holder shall deliver to Maker the letter hereinabove referred to as Exhibit "A". In this connection, Maker also reserves the right to imprint restrictive legends on the Certificates representing the shares of Common Stock (or other equity securities) into which this Note shall be converted and to place stop transfer orders against the same. Nothing contained herein shall be construed as requiring counsel for Maker to subsequently issue any opinion letter that registration is not required, and such counsel may refuse to issue such an opinion letter on any reasonable grounds or may require opinion letters from counsel for the proposed transferor, affidavits from the proposed transferor or transferee, letters from the Securities and Exchange Commission or any other documents which said counsel may deem to be necessary or desirable and proper as a condition precedent to issuing such an opinion letter.

c. In the event that at any time the Common Stock of Maker shall be exchanged for, or changed into, a different kind and/or a number of shares of stock of Maker or of another corporation or property of some other kind by reason of a merger, consolidation, sale of assets, recapitalization, reclassification, stock dividend, stock split-up, combination of shares, liquidation or otherwise, then, until any further adjustment is required, there shall be issuable upon the conversion of this Note, in lieu of each share of Common Stock of Maker or of any other stock theretofore issued pursuant to the provisions of this Paragraph, the kind and/or number of shares of stock or other property (including cash) for which each share of Common Stock of Maker or such other stock shall be so exchanged, or into which each share of Common Stock of Maker or such other stock shall be so changed (including by distribution in liquidation); and the Conversion Price shall be automatically adjusted to a new Conversion Price as nearly equivalent as practicable to the adjustment in shares of stock, if by reason of such merger, consolidation, recapitalization, reclassification or otherwise the number of issued and outstanding shares of Common Stock of Maker shall have been exchanged for or changed into such new shares on other than a one-to-one basis. If such event requires an adjustment in the Conversion Price, Maker shall mail notice of the nature of such event and the new Conversion Price to the Purchaser at the Purchaser's registered address within ten (10) days after the occurrence of such event.

d. No adjustment in the Conversion Price shall be made for cash dividends on the shares of Common Stock of Maker or any other stock issued upon any conversion of this Note. No fractional shares or script representing fractional shares will be issued upon the conversion of this Note. In lieu of the issuance of any fractional share otherwise called for upon such conversion, Maker will pay to the Purchaser an amount in cash equal to the value of such fractional share, based upon the Conversion Price.

e. Maker shall at all times, prior to the maturity date of this Note, reserve and keep available out of its authorized but unissued Common Stock (or, if issued, other equity securities), solely for the purposes of issuance upon conversion of this Note as herein provided, a sufficient number of shares of Common Stock (or such other securities) to effect the conversion of this Note at the Conversion Price which shall, from time to time, be in effect. Such shares of Common Stock when issued upon conversion shall be duly and validly issued and fully-paid and non-assessable; however, such shares of Common Stock will not be registered under the Act, or any successor statute or similar State Law, by reason of an exemption established by the Payee's intent not to distribute the same as set forth in Exhibit "A".

If Maker elects to prepay this Note in whole or in part or to pay interest hereon prior to maturity pursuant to the provisions of Section 2 hereof and Payee shall, pursuant to the provisions of this Section 3, desire to convert all or any portion hereof so called for prepayment or the interest proposed to be prepaid, Payee shall give notice to such effect to Maker concurrently with the surrender of such Note and prior to the date fixed for such prepayment or interest payment, stating the portion of the Note which Payee desires to so convert. In such event, such portion shall not be prepaid or paid, but rather shall be converted in accordance with the provisions of this Section 3, and Maker shall have no further obligation with respect to such prepayment or interest payment.

4. Mandatory Conversion. In the event that (a) there shall be a sale of all or substantially all of the shares or assets of Maker to an unrelated third party, or (b) Maker shall become a party to a merger, consolidation or similar event with an unrelated third party, the Company may require the Holder to surrender this Note for conversion at the then-applicable Conversion Price. To exercise such right, the Company must deliver a notice to that effect ("Notice of Forced Conversion") at least twenty (20) calendar days prior to the date fixed for closing of such transaction, which notice shall be effective only if such transaction shall close, immediately preceding the closing thereof. In the event of a mandatory conversion pursuant to the provisions of this section 4. the Holder agrees to be bound by the provisions of any agreements generally applicable to the shareholders of Maker entered into in connection with the transaction that results in such mandatory conversion.

5. Subordination.

a. Definition of Senior Debt. As used herein "Senior Debt" means all principal, interest, fees, costs, enforcement expenses (including legal fees and disbursements), collateral protection expenses and other reimbursement or indemnity obligations of the Maker in respect of (a) money borrowed by the Maker from an institutional lender (b) those obligations listed on Schedule B to this Note.

b. General. The indebtedness of the Maker to the Holder under this Note and all of the rights of Holder under this Note shall be and hereby are subordinated and the payment thereof is deferred until the full and final payment in cash of the Senior Debt, whether now or hereafter incurred or owed by Maker. Notwithstanding the immediately preceding sentence, Maker shall pay, and Payee shall be permitted to receive, any regularly scheduled payment of interest or principal on this Note so long as, at the time thereof, such payment is permitted by the documents evidencing the Senior Debt.

c. Enforcement. Payee will not take or omit to take any action or assert any claim with respect to this Note, any of the obligations of the Maker hereunder or otherwise which is inconsistent with the provisions of this Section 5. Until the Senior Debt has been finally paid in full in cash, the Payee shall not have any right of subrogation, reimbursement, restitution, contribution or indemnity whatsoever from any assets of Maker or any guarantor.

d. Modifications, Extensions, Releases, Settlements. Payee agrees that Maker may incur or increase the amount of the Senior Debt, modify the terms of any Senior Debt, extend the term of any Senior Debt, grant or obtain the release of security interests with respect to collateral for the Senior Debt and otherwise deal with the Senior Debt without the consent of Payee and without affecting the agreements of Payee contained in this Section 5.

6. Events of Default. If any of the following events ("Events of Default") shall occur and be continuing, Payee may, by notice to Maker, declare this Note, all interest hereon, and all other amounts payable hereunder to be due and payable, whereupon the same shall become immediately due and payable:

a. There is a failure to make any payment of principal of or interest on this Note when due, or Maker breaches any other obligation to Payee hereunder,

b. Maker shall become insolvent or admit in writing its inability to pay its debts as they become due, or shall make a general assignment for the benefit of creditors;

c. Any proceedings shall be instituted by or against Maker seeking either (i) an order for relief with respect to, or reorganization, arrangement, adjustment or composition of, its debts under the United States Bankruptcy Code or under any other law relating to bankruptcy, insolvency, reorganization or relief of debtors, or (ii) appointment of a trustee, receiver or similar official for Maker or for any substantial part of its property; and, with respect only to a proceeding instituted against Maker, such proceeding is not dismissed within thirty (30) days thereafter;

d. There shall be any default or event of default under any guarantee of, or subordination agreement relating to, or mortgage, security or other agreement securing, this Note;

e. Maker's failure to conduct business in the ordinary course, dissolution or termination of existence.

7. No Waiver, etc. No delay or omission on the part of Payee in exercising any right hereunder or under any guarantee of or subordination agreement relating to, or mortgage, security or other agreement securing, this Note (whenever entered into or granted) shall operate as a waiver of such right or of any other right of Payee, nor shall any delay, omission or waiver on any one occasion be deemed a bar to or waiver of the same or any other right on any future occasion. Maker, and every endorser of this Note, regardless of the time, order or place of signing, waives presentment, demand, protest and notices of every kind with respect to this Note and assents (i) to any extension or postponement of the time of payment and to any other indulgence, (ii) to the addition or release of, or any compromise or settlement with, any endorser or other party or person primarily or secondarily liable hereunder, and (iii) to the addition or release of, the failure to take or perfect an interest in, any compromise or settlement with respect to, or any delay in proceeding or failure to proceed against, any collateral or other security for this Note.

8. Payee's Expenses. Maker also agrees to pay on demand all costs and expenses (including fees and expenses of counsel) incurred by Payee in administering and/or enforcing this Note and any and all security agreements, mortgages and guarantees securing this Note and under all subordination agreements relating to this Note; and in taking, holding, insuring, appraising, preparing for sale and selling, or otherwise realizing on, any collateral securing this Note. All such costs and expenses shall bear interest, payable on demand, from the date of payment thereof by Payee until paid in full by Maker at the rate(s) from time to time applicable to the principal of this Note, including any rate applicable during the existence of an Event of Default or any event which with notice or passage of time or both would constitute an Event of Default.

9. Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed wholly within New York State, without giving effect to conflict of laws principles.

10. Notices. Any notice or other communication required or permitted under this Note shall be in writing and shall be deemed to have been duly given (i) upon hand delivery, or (ii) on the third day following delivery to the U.S. Postal Service as certified or registered mail, return receipt requested and postage prepaid, or (iii) on the first day following delivery to a nationally recognized United States overnight courier service, fee prepaid, return receipt or other confirmation of delivery requested, or (iv) when telecopied or sent by facsimile transmission if an additional notice is also delivered or mailed, as set forth under (i), (ii) or (iii) above, within three days thereafter. Any such notice or communication shall be delivered or directed to a party at its address set forth above or, as to each such party or any holder hereof, at such other address as may be designated by such party or holder in a notice given to the other parties hereto in accordance with the provisions of this paragraph.

11. Modifications; Waiver. No modification or waiver of this Note or any part hereof shall be effective unless in writing and signed by Maker and Payee. No waiver of any breach or condition of this Note shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like kind or different nature. No course of dealing between Maker and Payee, or between Payee and any other party, will be deemed effective to modify, amend, waive or discharge any part of this Note or of the rights or obligations of Maker hereunder.

IN WITNESS WHEREOF, Icuiti Corporation. has executed this Note as of the date first above written.

Icuiti Corporation

WITNESS

_____

By: /s/ Paul Travers
Name: Paul Travers
Title: Print President

EXHIBIT A

Icuiti Corporation

_____

_____

Gentlemen:

I hereby exercise my right to convert the Promissory Note (the "Note"), in the principal amount of $500,000, issued to me by Icuiti Corporation (the "Company") and dated September ___, 2006, into shares of the $.001 par value Common Stock of the Company ("Common Stock"), as provided in the Note, as follows:

I hereby request that $_____ in principal amount of the Note and accrued interest thereon of $_____ be converted into _____ shares of Common Stock (the "Shares") at a Conversion Price of $_____ per share, which is the Conversion Price in effect under the Note on the date hereof. I request that The Company issue to me a new Note representing the excess, if any, of the amount of the Note being converted over the principal balance thereof, and that the Company pay me interest accrued on the portion of the Note being converted, through the date hereof, as provided in the Note.

In connection with the acquisition by me of the Shares, I represent, warrant and covenant to the Company as follows:

1. Investment Intent. I represent to the Company that all of the Shares are being acquired by me for my own investment account and not with a view to, or for resale in connection with, any distribution of the Shares nor with any intention of dividing with others my ownership of or interest in the Shares.

2. Shares Not Registered. I acknowledge that (a) the Shares have not been registered under the Securities Act of 1933, as amended (the "Act") by reason of a specific exemption under the provisions of the Act which depends upon the representations contained in this letter and (b) the Company is relying on such representations as a condition precedent to the issuance of the Shares.

3. Sale and Registration. I understand that the Shares must be held indefinitely unless subsequently registered under the Act or unless an exemption from registration is available to me. I acknowledge that the Company is under no obligation to register the Shares in the future; that any sales made by me publicly can only be made in compliance with Rule 144 promulgated pursuant to the Act ("Rule 144"), or in compliance with some other exemption from registration; that Rule 144 will not be available to me until I have held the Shares for at least two (2) years after I have made full payment for the Shares, within the meaning of the Act, and will then be available only to the extent permitted by Rule 144, which may limit the number of shares which may be transferred and the circumstances of any transfer; that the availability of Rule 144 is dependent in part on the availability of certain public information about the Company, and that the Company has made no commitment to make such information available; that Rule 144 may no longer be in effect, may have been amended so as to be inapplicable to a sale of the Shares by me or may otherwise be unavailable

to me when I desire to sell the Shares; and that, if Rule 144 has been so amended or is unavailable to me, and if the Shares are not then registered, any public resale of the Shares may be made only in compliance with some other exemption from registration under the Act, and only if such an exemption is available to me.

4. Risk and Disclosure. I understand the nature of the investment being made and the financial risks thereof. I have been accorded access to all of the financial statements and other information concerning the Company that I deem necessary or appropriate to the purchase of the Shares by the conversion of the Note, and do not desire further information or data concerning the Company in connection with such purchase.

5. Transfer Restrictions. I agree that the Shares may not be transferred, and that the Company shall not be required to register any such transfer, unless and until The Company shall have been informed of the proposed transfer and:

A. A registration statement with respect to the Shares shall be effective under the Act and I shall have furnished to the Company satisfactory proof of compliance with any other applicable law; or

B. I shall have obtained and delivered to the Company an opinion of counsel, in form and content satisfactory to the Company and its counsel, that no violation of the Act or any other applicable law will be involved in such transfer, and/or such other documentation in connection therewith as counsel for the Company may in their sole discretion require in order to permit them make a determination that the transfer will involve no such violation.

6. Legends. I agree that appropriate legends may be placed on any certificates delivered to me representing the Shares in order to give notice of the transfer restrictions and right of first refusal set forth in this letter and that the Company may cause stop transfer orders to be placed on my account.

7. Indemnification. In consideration of the issuance and sale of the Shares to me, I hereby agree to indemnify and hold harmless the Company and its officers, directors, employees and agents from and against any and all liability losses, damages, expenses and attorneys' fees which they may hereafter incur, suffer or be required to pay by reason of the falsity of, or my failure to comply with, any representations or agreements contained in this letter.

Very truly yours,

_____

_____

Witness

Exhibit 16.1

LETTER FROM PREDECESSOR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-6010

Dear Ladies and Gentlemen:

We are the predecessor independent registered public accounting firm for Vuzix Corporation (the Company). We have read the Company's disclosure set forth under the heading "Changes in Registrant's Certifying Accountant" in the Company's Amendment No. 3 to Registration Statement on Form S-1/A filed on October 16, 2009 and are in agreement with the disclosure insofar as it pertains to our firm.

/s/ Rotenberg & Co, llp

Rochester, New York
October 16, 2009

Ex 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

As successor by merger to the registered independent public accounting firm of Rotenberg & Co. LLP, we hereby consent to the use in this Amendment No. 3 to Registration Statement on Form S-1 of our report dated June 17, 2009, relating to the consolidated financial statements for the year ended December 31, 2008 of Vuzix Corporation. We also hereby consent to the reference to us under the heading "Experts" in the Prospectus, which is a part of this Registration Statement.

/s/ EFP Rotenberg, LLP
EFP Rotenberg, LLP

Rochester, New York
October 15, 2009

Ex 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated June 17, 2008 (except for Note 20, as to which the date is April 14, 2009) relating to the financial statements of Vuzix Corporation as of and for the years ended December 31, 2006 and 2007, in the Registration Statement on Form S-1 and related prospectus of Vuzix Corporation dated October 15, 2009.

/s/ Davie Kaplan, CPA, P.C.

Rochester, New York
October 15, 2009

October 16, 2009

Mr. Mark P. Shulman, Branch Chief – Legal
Mr. Matthew Crispino
Mr. Morgan Youngwood
Securities and Exchange Commission
Division of Corporation Finance
100 F Street, N.E.
Mail Stop: 4561
Washington, D.C. 20549

Via EDGAR and
Federal Express

Re: Vuzix Corporation Amendment No. 3 to Registration Statement on Form S-1
(File No. 333-160417)

Gentlemen:

On behalf of Vuzix Corporation (the "Registrant"), attached for your review is a copy of Amendment No. 3 (the "Amendment") to Registration Statement on Form S-1, File No. 333-160417 (as previously amended, the "Registration Statement"), as filed with the Securities and Exchange Commission (the "Commission") on the date hereof via EDGAR and marked to show changes from the Registration Statement filed with the Commission on September 4, 2009.

The Amendment is being filed in response to comments received from the staff of the Commission (the "Staff") by letter dated October 2, 2009, with respect to the Registration Statement (the "Comments") and our telephone conference with the staff accountant on October 8, 2009. The numbering of the paragraphs below corresponds to the numbering of the Comments, which for the Staff's convenience, have been incorporated into this response letter. Page references in the text of this response letter correspond to the page numbers in the Amendment.

Cover Page

1. We note your response to prior comment 5. The cover page, however, remains excessively detailed. As noted in our prior comment, your cover page disclosure should be limited to information that is required by Item 501 of Regulation S-K or t hat is key information about the offering. For example, the discussion of the circumstances under which you may accelerate the expiration date of the warrants does not need to be explained on prospectus cover page. Also, the detailed information about your Canadian offering is not key information needed by U.S. investors. We also continue to believe that you should remove the proceeds table from cover page. See prior comment 4. Please revise your cover page as necessary to comply with the requirements of Rule 421 of Regulation C. See also the Plain English guidance available on our web site at http://sec.gov/divisions/corpfin/cfguidance.shtml#english.

We have revised the cover page to eliminate excessive detail. We believe that the revised cover page contains disclosure material to investors. Please see the cover page in the Amendment.

2. *We note the disclosure on the cover page that you are offering your securities on a "commercially reasonable efforts basis" and the disclosure on page 96 that the offering is being made on a "commercially reasonable 'best efforts' basis." We are unfamiliar with the term "commercially reasonable efforts" in connection with a best efforts offering. Please explain what is meant by the term.*

We understand that the term "commercially reasonable efforts basis" in connection with a public offering has a well-established meaning in Canada and had used that term in our prospectus at the request of our Canadian agents. We do not believe that the term has any meaning distinct from "best efforts basis" in the context of a US public offering. Accordingly, we have changed each reference to "commercially reasonable efforts basis" or "commercially reasonable 'best efforts' basis" throughout the prospectus to "best efforts basis." Please see the cover page, offering summary and page 96 of the Amendment.

3. *We note your disclosure that neither you nor your agents will receive any funds in payment for the securities sold in this offering until the closing and, therefore, you have no arrangements to place funds in an escrow account. In your response letter, please explain who will collect payment for the securities and when such payment will be collected. Also, since neither the company nor its agents will collect the funds, explain how the company will know at the closing if it has reached the required minimum gross proceeds for the offering. Finally, please tell us how you intend to comply with Rules 10b-9 and 15c2-4 of the Exchange Act without appointing an escrow agent.*

We will appoint JP Morgan Chase Bank, National Association, or one of its affiliates, as escrow agent to collect payment for the securities in order for us to comply with Rules 10b-9 and 15c2-4 of the Exchange Act. We have revised the prospectus accordingly. Please see the cover page and underwriting section of the Amendment.

Risk Factors

"There is currently no trading market for our securities...," page 20

4. We note your response to prior comment 14. Please move the discussion regarding shareholders' inability to exercise the warrants in the absence of an effective registration statement to a separately captioned risk factor. Disclose in that risk factor those states, if any, in which you intend to register or otherwise qualify your securities for sale. Highlight the fact that investors will not be able to exercise the warrants in states where your common stock has not been registered.

The requested changes and additional disclosures have been made. Please see the new risk factor on page 20 of the Amendment.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and capital resources, page 48

5. Your response to prior comment No. 22 indicates that you offer significant early payment discounts on your accounts receivable balances. Please clarify how you account for these early payment discounts and tell us how such discounts are recorded in your consolidated statements of operations.

Historically, we have accounted for early payment discounts as a cost of goods sold in our consolidated statements of operations. The following table shows the total early payment discounts in dollars and as a percentage of total sales for the years ended December 31, 2006, 2007 and 2008 and the six months ended July 31, 2009:

Period	Early Payment Discounts	Percentage of Total Sales
Year Ended December 31, 2006	$ 25,419.00	0.267%
Year Ended December 31, 2007	$ 13,937.03	0.137%
Year Ended December 31, 2008	$ 74,603.14	0.59%
Six Months Ended June 30, 2009	$ 37,315.08	0.73%

After further research we have concluded that early payment discounts are typically presented as a reduction in sales rather than as a cost of goods sold and we will account for them accordingly. We have also restated our sales and cost of sales for our year ended December 31, 2008 and for the three and six month periods ended June 30, 2009 and 2008 in this Amendment. We have not restated those accounts in our financial statements for the years ended December 2006 and 2007 as the necessary adjustments would be immaterial and the current treatment did not result in any misstatement of gross margin or net income for those years.

6. Your response to prior comment No. 24 indicates that you believe there was no uncertainty in your going concern assumptions when preparing your financial statements for the year ended December 31, 2008. Please explain, in greater detail, the basis for your conclusion. In this regard, your analysis did not consider the $500,000 convertible note payable due in

January 2009 that is past due. Further, you indicate that your suppliers would continue to extend credit and that you have the ability to raise capital consistently, however, you do not address the ability of each of these sources of financing to continue to support your operations. Explain how your operating budget for 2009 compares to your actual cash flows from operations during the six months ended June 30, 2009 and the nine months ended September 30, 2009. Demonstrate why you believed that you would have positive cash flows in 2009 while in all prior years you have experienced negative cash flows. That is, describe why you believed you would have positive cash flow (e.g., reduction of operating expenses, increased revenue based on executed contracts). Tell us any other conditions or events that you considered in reaching your conclusion that there was no uncertainty in your going concern assumptions. Revise your disclosures to provide similar information outlined in your response.

We concluded that there was no substantial uncertainty in our going concern assumptions when preparing our financial statements for the year ended December 31, 2008 based upon the factors described in our response to prior comment No. 24 and upon the following additional factors:

Date of Opinion

Our auditors issued their opinion with respect to our 2008 financial statements on June 17, 2009. By then, almost six months of the 2009 calendar year had elapsed, and our financial performance was reasonably consistent with our projections. This bolstered our conclusion that there was no substantial uncertainty that we would continue to operate as a going concern at least until the end of 2009.

$500,000 convertible note payable due in January 2009

The $500,000 convertible note due in January 2009 is payable to Sally Hyde Burdick. Prior to the maturity of the note, we approached Ms. Burdick to negotiate an extension of the maturity of the note. Although the note was not formally extended, Ms. Burdick orally agreed not to demand immediate repayment provided that we make monthly interest payments on the principal amount of the note at the annual rate of 18% to which we agreed. When we prepared our 2008 financial statements in June 2009, we had made the required monthly interest payments for four consecutive months and we believed that we would continue to be able to make these interest payments for the foreseeable future from our budgeted cash flows from operations. To date we have done so.

Based upon our long relationship with Ms. Burdick and her statements regarding her personal financial position, we believed Ms. Burdick was unlikely to demand payment so long as she was receiving the return that we had agreed upon. We also believed that if Ms. Burdick demanded payment of the note, our management would be able to raise the funds necessary to pay the amount due either from their personal resources or those of other stockholders, who had provided financial resources to us in the past. As described in more detail below, since 2000 our management has raised approximately $11.8 million from those and other private sources. Accordingly, in June 2009, we concluded that our default under the note did not create any substantial uncertainty in our going concern assumptions.

The ability of suppliers to continue to support our operations

We have relied on extensions of credit from three of our major suppliers: Kopin Corporation; Vast Technologies, Inc.; and KEK Associates, Inc. Kopin, the largest of our trade creditors, is a public company. In order to determine whether Kopin would be able to continue to extend credit to us we reviewed its Quarterly Report on Form 10-Q for the three month period ended March 28, 2009 filed with the Commission on May 6, 2009. According to that report, as of March 28, 2009, Kopin had cash and equivalents and marketable securities of $104,056,727, working capital of $117,411,466 and net income $2,099,700 for the three month then ended. Accordingly, we determined that Kopin would be able to continue to extend credit to us in manner consistent with past practice.

Kopin is also a substantial shareholder in us, and we believed that based upon our relationship with its management and its equity interest in us, it would be willing to continue to extend trade credit, including by providing us with advance payments on their orders for night vision display electronics that we build for them. We also believed that Kopin would continue to take advantage of our 2% early payment discounts as they have done in the past. To date they have continued to do so. It should be noted that our sales to Kopin/DRS continue to represent 20% of our revenues.

Vast and KEK are both private companies and we had no direct access to their financial condition. However, each of Vast and KEK are wholly-owned by one of our stockholders. Our management has longstanding relationships with these individuals. Based on conversations with these individuals and our course of dealing with those companies, we concluded that they would be willing and able to continue to extend credit to us in manner consistent with their past practice.

Availability of Additional Capital

Since December 2000, we have raised $11,858,000 in equity and debt financing through private placements. We have also raised an additional $1,626,000 in loans (in addition to the loan from Ms. Burdick), of which $650,000 was borrowed from current management and stockholders. As disclosed in our prospectus, our Chief Executive Officer and Chief Financial Officer loaned us an aggregate of $209,208 more than five years ago to finance our operations; in October 2008, our Chief Executive Officer loan us an additional $165,500 under a revolving loan agreement; in August 2009 we borrowed $200,000 from three stockholders (including $50,000 from our Vice President of Quality Assurance, the beneficial owner of approximately 9% of our issued and outstanding common stock). Based on our knowledge of the financial resources of our management and these stockholders, we concluded that, if necessary, they would be able to continue to loan money to us to finance our operations in a manner consistent with their past practice.

Accordingly, in June 2009, we concluded that our reliance on our suppliers to continue to extend credit and our reliance on management and other stockholders as sources of capital to finance our operations eliminated a substantial uncertainty in our going concern assumptions. We respectfully note that, from the time we prepared our 2008 financial statements to date, all three of the suppliers named above have continued to extend credit to us in manner consistent with their past practice and that we were in fact able to raise $300,000 in equity financing from those sources in January 2009 and to borrow $200,000 from those sources in August 2009.

Our operating budget for the six months ended June 30, 2009 and the nine months ended September 30, 2009 compared to our actual cash flows from operations

Our operating budget for the six months ended June 30, 2009 provided for gross profit of $2,251,320 on net revenues of $6,460,869 and net income before tax of $(747,785). Our actual results of operations (unaudited) for the six months ended June 30, 2009 were gross profit of $1,860,226 on net revenues of $5,119,402 and net income before tax of $(1,487,565). Our operating budget for the nine months ended September 30, 2009 provided for gross profit of $3,023,035 on net revenues of $8,983,253 and net income before tax of $(1,787,865). Our estimated actual results of operations (unaudited) for the nine months ended September 30, 2009 were gross profit of $2,892,259 on net revenues of $7,690,675 and net income before tax of $(1,784,658). More details regarding the comparisons of our operating budgets for the six months ended June 30, 2009 and the nine months ended September 30, 2009 to our actual results for those periods, and our operating budget for the current fiscal quarter, are set forth on Exhibit A attached to this letter.

After adding back depreciation to our losses for those periods, our cash flow for the six months ended June 30, 2009 was ($1,052,442) as compared to a budgeted operating cash flow for the period of ($459,488). Our operating cash flow for the nine months ended September 30, 2009 was ($1,191,710) an improvement over our budgeted operating cash flow for the period of ($1,311,702).

Why we believed we would have positive cash flow in 2009

In June 2009, we concluded that, with the continued support of our note holders and suppliers as described above, we would have positive cash flow for 2009 for two reasons: We had substantially reduced our costs and our revenues for the year to date had increased and were expected to continue to increase.

In November 2008, we implemented a cost reduction program, which included a 20% reduction in our work force. Reductions were made in most areas of the company, although slightly higher reductions took place in research and development and smaller reductions were made in revenue-generating areas such as sales and marketing. We also reduced our use of external consultants for development work. As a result, we achieved a 32% reduction in research and development expenses and a 10% reduction in general and administrative expense in the first quarter of 2009 compared to the first quarter of 2008. We believed that we would be able to maintain these savings throughout 2009 and estimated that they would result in an aggregate reduction in expenses of $1,500,000 for 2009 as compared to 2008, without adversely affecting our sales.

Our revenues for the first quarter of 2009 increased by 77% over revenues for the first quarter of 2008. This increase was primarily attributable to increased orders for defense products from our night vision display drive electronics customer and increased distribution of our consumer Video Eyewear products in the United Kingdom and Japan. We believed these increases would continue through 2009, due in part to the fact that our business is seasonal, with our greatest revenues occurring during the third and fourth quarters, and that it was therefore reasonable to expect further increases in sales for the third and fourth quarters of 2009.

As a result of our increased sales, cost reductions and increased expenses, our net loss for the first quarter of 2009 was approximately 73% lower than our net loss for the first quarter of 2008. In June 2009, based on the preliminary information then available to us, we concluded that our results of operations for the first six months of 2009 would show that our reductions in expenses and increased sales of consumer Video Eyewear products had continued. As disclosed in the financial statements included in the prospectus, our actual net loss for the second quarter of 2009 was $(1,038,976), a decrease of $(76,348) or approximately 7% from our net loss for the second quarter of 2008 and our cash flow was ($741,045) an improvement decrease of $207,324, or approximately 22% from our negative cash flow for the second quarter of 2008.

In conclusion we feel that our determination that there was no substantial uncertainty regarding our ability to continue as a going concern was reasonable and correct. And finally we would like to point out that today, nearly ten months after December 31, 2008, we are still operating as a going concern as additional confirmation that those assumptions were still valid.

As you requested, we have revised our prospectus to provide similar information to that outlined in this response. Please see the new paragraph under Current Financial Position in the Management's Discussion and Analysis section beginning on page 50 of the Amendment.

7. Explain how your auditors concluded that there is no uncertainty in your going concern assumption. Specifically, describe why they believe that a "commercial reasonable basis" (originally, best efforts) offering is a sufficient basis to overcome uncertainty in your going concern assumption. That is, it appears that without this offering the company would experience material adverse effects on its ability to continue to operate.

Our auditors concluded that there is no uncertainty in our going concern assumption based upon the factors described in our response to comment No. 6 above and in our response to prior comment No. 24. More specifically, at the time their opinion was rendered in June 2009, our auditors reviewed the actual financial performance and cash flows of the company for the five months ended March 31, 2009 compared to the budget and the prior year comparable periods. Our auditors also reviewed the available resources of affiliates including the historical and continuing capital infusion from those affiliates in reaching their conclusion that a substantial doubt about our ability to continue as a going concern was overcome. Our auditors expressly excluded our proposed public offering from their consideration of any uncertainty in our going concern assumption.

8. Your response to prior comment No. 24 indicates that your suppliers are shareholders of the company. If so, please add the appropriate disclosures for related party transactions as outlined in SFAS 57.

In our response to prior comment No. 24, we referred to three of our major suppliers: Kopin Corporation; Vast Technologies, Inc.; and KEK Associates, Inc. Kopin, the largest of our trade creditors, beneficially owns 7,973,646 shares of our common stock or approximately 3.6% of our outstanding common stock and accordingly our transactions with Kopin have been fully disclosed in Note 25 to our financial statements in accordance with SFAS 57. Neither Vast nor KEK beneficially owns any of our common stock. The president and sole stockholder of Vast, the second largest of our trade creditors, beneficially owns 2,000,000 shares of our common stock or approximately 0.9% of our outstanding common stock. The president and sole stockholder of KEK, the third largest of our trade creditors, beneficially owns 656,765 shares of our common stock or approximately 0.3% of our outstanding common stock. We respectfully submit that under SFAS 57 no additional disclosure is required regarding our transactions with Vast and KEK because the percentages of our outstanding common stock owned by their affiliates are immaterial. Accordingly, no additional disclosure has been made in response to this comment.

Management, page 66

9. In your response to prior comment 26, you state that Mr. Russell is not involved in any of your daily accounting functions, which are performed by your controller. However, Mr. Russell is identified as your principal accounting officer on the signature page of the registration statement. In your response letter, please describe Mr. Russell's role and responsibilities as your principal accounting officer.

As our principal accounting officer, Mr. Russell's responsibilities are to:

- oversee and ensure that the monthly and annual financial statements and other financial information are prepared timely and accurately to facilitate effective decision making and our financial reporting requirements;
- coordinate capital requests and reconciliation of budgets to actual for reporting to our management and board of directors on a regular basis;
- coordinate with our auditors and attorneys on regulatory filings;
- oversee the construction and monitoring of systems, policies and procedures that ensure adequate internal controls and financial procedures;
- oversee the maintenance of appropriate internal controls and financial procedures; and
- identify risks to the Company and ensure the maintenance of adequate insurance coverage.

Related Party Transactions

Shareholder Loan, page 80

10. We note that you have not disclosed the name of the individual lender from whom you borrowed the $500,000 or the basis on which he or she is a related person. See Item 404(a)(1) of Regulation S-K. Please disclose this information in this section or tell us why you believe it is not required to be disclosed.

The requested disclosure has been made. Please see page 80 of the Amendment.

Description of Capital Stock

Warrants, page 88

11. We note your response to prior comment 31. It does not appear that you have amended the registration statement to describe the factors you considered in determining the exercise price of the warrants being sold in the offering. Please advise.

The requested disclosure has been made. Please see page 88 of the Amendment.

Convertible Debt, page 80

12. We note your response to prior comment 33. We are unable to concur with your conclusion that the company may refrain from filing the promissory note as an exhibit in reliance on paragraphs (A) and (B) of Item 601(b)(4)(iii). The exception at Item 601(b)(4)(iii)(A) does not appear to apply because the outstanding principal balance on the note exceeds 10% of the company's total assets at June 30, 2009. Also, note that if the accrued and unpaid interest on the promissory note is added to the principal balance, the outstanding balance on the note exceeds 10% of the company's current assets at March 31, 2009 as well as at June 30, 2009. The exception at Item 601(b)(4)(iii)(B) also does not appear applicable. You indicate in your response that you intend to repay the note from the proceeds of the offering. Since the offering will not close unless the company receives minimum gross proceeds of Cdn $6,000,000, however, it does not appear that the company has taken "appropriate steps to assure" that the note will be redeemed or retired prior or upon to delivery of the registered securities. Accordingly, please file the promissory note as an exhibit to your next amendment.

We have filed the promissory note as an exhibit to the Amendment. Please see Exhibit 10.20 to the Amendment.

Consolidated Financial Statements

Consolidated Statements of Changes in Stockholder's Equity page F-4

13. Please clarify the guidance that you relied upon to record the "direct IPO associated expenses" as a reduction of additional-paid-in-capital.

SEC Staff Accounting Bulletin: Codification of Staff Accounting Bulletins, Topic 5.A, S25-1, paragraph 340-10-S99-1 provides that "the specific incremental costs directly attributable to a proposed offering of securities may be properly deferred and charged against the gross proceeds of the offering. Deferred costs of an aborted offering may not be deferred and charged against proceeds of a subsequent offering. A short postponement (up to 90 days) does not represent an aborted offering." Topic 340-10-S99 covers setting such costs as an asset and topic 505-10-S25 refers to the equity component. Both these sections also refer to Topic 5.A.

Since this is an interim reporting period and the amounts involved are not material we did not record our direct IPO associated expenses as an asset. We concluded that it was better to reflect those expenses on that part of the balance in which they would be reflected upon the closing of the offering. At this time we still expect to close our offering in the forth quarter of 2009. If the offering is not closed, these expenses will be treated operating expenses in the future. Additionally, we respectfully note that this deferral is fully disclosed in our consolidated statement of cash flows.

Consolidated Statements of Operations, page F-6 and F-7

14. Please clarify whether your calculation of basic and diluted earnings per share is computed using the weighted average number of common shares outstanding for the period. In this respect, it appears from your presentation on the face of your consolidated statements of operations that your basic and diluted earnings per share were computed using the number of issued and outstanding shares at the end of each respective period rather than the weighted average number of common shares outstanding for the period.

Upon review, we have determined that our basic and diluted earnings per share were not calculated using the weighted average number of common shares outstanding for the period and we have corrected them accordingly. Please see pages F-6 and F-7 of the Amendment.

Note 2 — Nature of Business and Summary of Significant Accounting Policies

Revenue Recognition, page F-11

15. Your response to prior comment No. 35 indicates from time to time, free software upgrades have been made available on your product sales arrangements usually to add some new level of functionality. Explain why you do not believe this is an indicator that the software is more than incidental to your products as a whole. We refer you to paragraph 2 and footnote 2 of SOP 97-2. Tell us how you determined that these software upgrades do not represent a separate element in your product sales arrangements. In addition, explain how you satisfy the delivery criteria in SOP 97-2 and/or SAB 104 considering your history of offering free software upgrades that usually add some new level of functionality to your products.

We respectfully note that to date we have only offered one free software upgrade. This upgrade added a single new feature to one model of our Video Eyewear products, which already included dozens of features. Specifically, the upgrade supported a new 3D video format that we thought some purchasers of that model might like to try. We had no obligation to provide this upgrade and have no obligation to provide any other upgrades in the future. We have no substantial obligations for any post-sale customer support service offerings or for future releases of the embedded software.

We respectfully submit that the provisions of SOP 97-2 and SAB 104 do not apply because only some of our Video Eyewear products have embedded software that can be upgraded. Therefore, our software has been and is correctly considered incidental to our products as a whole. Our software is not a deliverable that our customers have any expectation of receiving upon purchase of our products. Any additional upgrades, if and when offered, will be made at our discretion and will not be essential to the functionality of our products as delivered. Possible future upgrades are not included in any of our marketing efforts. Accordingly, we feel our accounting for our Video Eyewear product revenues is correct and thus the provisions of SOP 97-2 and SAB 104 do not apply.

Earnings per share, page F-13

16. We note your response to prior comment No. 36. Please clarify how you considered the guidance in Issue 5 of EITF 03-6 when calculating your basis net loss per common share. In this respect, please tell us whether your Series C Preferred Shares are entitled to participate in your net losses.

Our Series C Preferred shares are not entitled (or required) to participate in our net losses and do not share in our profits. Accordingly, we feel they should not be included in our basic net loss per common share calculations other than for the accrual of their cumulative dividends. This treatment is consistent with the guidance contained in Issue 5 of EITF 03-6.

Note 19 — Stock Subscription Receivable, page F-26

17. Please clarify the guidance that you relied upon to account for the forgiveness of the subscription receivable as a reduction of additional-paid-in-capital.

As requested by the Staff Accountant during our telephone conference of October 8, 2009, below are the accounting entries that were originally used to set up the share subscriptions receivable and its reversal in our last reporting period.

Originally Recorded As:	
Subscription Rec.	58,377.51
Subscription Rec.	35,803.56
Additional Pd in Capital	94,181.06
Forgiveness:	
Wages	58,377.51
Wages	22,668.86 (reflects interest accrued up till date of forgiveness)
Additional Paid in Capital	13,134.69
Subscription Receivable	94,181.06

As described above, the receivable was originally booked on a gross basis in 2001. This treatment was consistent with the SEC Staff Accounting Bulletin Topic 4:E (now SAP 107), which provides that “the amount recorded as a receivable should be presented in the balance sheet as a deduction from stockholder’s equity.” This treatment is also consistent with Rule 5-02.30 of Regulation S-X, which provides that accounts or notes receivable arising from transactions involving the registrant’s capital stock should be presented as deductions from stockholders’ equity and not as assets.

As a result of this adjustment, we have charged the amounts received for the shares and earned interest to compensation expense and then reversed the unearned interest revenue portion that was originally recorded to additional paid-in capital. Excluding the interest portion, we believe that such a reversal is consistent with GAAP, but we have been unable to find specific reference examples where the forgiveness included a gross interest reversal.

We have revised Note 19 to our consolidated financial statements to explain this treatment. Please see the amended Note 19 on page F-26 of the Amendment. In addition, we have changed the descriptions of these transactions on pages F-5 and F-8 to "Adjustment of Subscriptions Receivable"

Item 17, Undertakings, page II-6

18. We note your response to prior comment 40. Please provide the undertaking at Item 512(a)(5)(i) or (a)(5)(ii), as appropriate.

The requested undertaking has been provided. Please see page II-6 of the Amendment.

Please do not hesitate to call me at (585) 238-3576, or my colleague, Lawrence Kallaur, at (585) 238-3530, if you have any questions or would like any additional information regarding this matter.

Very truly yours,

/s/ Robert F. Mechur

Robert F. Mechur

cc: Messrs. Paul J. Travers
Grant Russell

Exhibit A

Vuzix Corporation

Operating Budget Compared to Actual Results for the Six Months Ended June 30, 2009

	Six Months Ended June 30, 2009	
	Budget	**Actual (unaudited)**
Revenue		
Defense & Industrial	3,526,390	1,865,815
Engineering Services	1,315,842	2,670,615
Consumer iWear	1,513,434	565,355
Medical Vision Products	105,203	17,617
Net Revenue	6,460,869	5,119,402
Cost of Goods Sold	4,209,549	3,259,177
Gross Profit	2,251,320	1,860,225
Expenses		
Research & Development	746,198	945,897
Sales & Marketing	1,218,755	976,041
General & Administrative	745,855	990,729
Depreciation	185,027	306,343
Sub-total of Operating Expenses	2,895,835	3,219,010
Loss from Operations	(644,515)	(1,358,785)
Net Other Income (Expense) — Interest	(103,270)	(127,005)
Income taxes	—	(1,776)
Net Income Before Tax	(747,785)	(1,487,566)

Vuzix Corporation

Operating Budget Compared to Actual Results for the Nine Months ended September 30, 2009

	Nine Months Ended September 30, 2009	
	Budget	**Actual (unaudited)**
Revenue		
Defense & Industrial	4,472,550	4,317,639
Engineering Services	1,693,842	833,210
Consumer iWear	2,772,743	2,520,480
Medical Vision Products	44,117	19,345
Net Revenue	8,983,253	7,690,675
Cost of Goods Sold	5,960,217	4,798,416
Gross Profit	3,023,035	2,892,259
Expenses		
Research & Development	1,384,565	1,372,328
Sales & Marketing	1,756,242	1,427,114
General & Administrative	1,213,929	1,284,527
Depreciation	281,411	424,273
Sub-total of Operating Expenses	4,636,148	4,508,242
Loss from Operations	(1,613,113)	(1,615,983)
Net Other Income (Expense) — Interest	(174,752)	(194,506)
Income taxes		25,831
Net Income Before Tax	(1,787,865)	(1,784,658)

Vuzix Corporation

Operating Budget for the Three Months Ending December 31, 2009

	Three Months Ending December 31, 2009 Budget
Revenue	
Defense & Industrial	1,941,600
Engineering Services	50,000
Consumer iWear	4,159,853
Medical Vision Products	127,262
Net Revenue	6,278,715
Cost of Goods Sold	3,946,193
Gross Profit	2,332,522
Expenses	
Research & Development	463,479
Sales & Marketing	950,632
General & Administrative	515,080
Depreciation	107,893
Sub-total of Operating Expenses	2,037,084
Loss from Operations	295,438
Net Other Income (Expense) — Interest	(25,633)
Income taxes	
Net Income Before Tax	269,804