Table of Contents

As filed with the Securities and Exchange Commission on November 10, 2009
Registration No. 333-160417

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 4
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:

Robert F. Mechur, Esq.
Boylan, Brown, Code, Vigdor & Wilson, LLP
2400 Chase Square
Rochester, New York 14604
(585) 232-5300

Kenneth G. Sam, Esq.
Jason Brenkert, Esq.
Dorsey & Whitney LLP
370 17th Street, Suite 4700
Denver, Colorado 80202
(303) 629-3400

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.”

Table of Contents

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 November 10, 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. Each unit consists of one share of our common stock 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 up to 36 months after the closing of this offering. The shares of common stock and warrants underlying the units will be issued separately. Our units are being concurrently offered to the public in Canada by our Canadian agents. 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 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. 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 or approximately US$5.63 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 (or approximately US$11.74 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 public offering price for units offered in the United States is payable in US dollars, and the public offering price for units offered in Canada and elsewhere outside the United States is payable in Canadian dollars, except as may otherwise be agreed by the agents. The US dollar amount of the public offering price will be US$ ● (the equivalent of the Canadian dollar amount based on the closing buying rate of the Bank of Canada on the date immediately prior to the effective date of the registration statement of which this prospectus forms a part) and converted into Canadian dollar equivalents for purposes of determining whether we have received minimum gross proceeds of Cdn$6,000,000.

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.

Table of Contents

Table of Contents

Table of Contents

TABLE OF CONTENTS

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 274,974,896 shares (assuming minimum gross proceeds of Cdn$6,000,000 at the initial public offering price of Cdn$0.15 per unit) and 285,174,896 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 (or approximately US$5.63 million) 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$4,800,000. 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 (or approximately US$11.74 million) 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$10,750,000. We expect to use $1,234,000 of the net proceeds of this offering to repay outstanding indebtedness, including accrued interest. The indebtedness to be repaid includes $215,500 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 4,867,283 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) (Restated)	**(Unaudited) (Restated)**	**(Unaudited) (Restated)**	**(Unaudited) (Restated)**
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 (Restated)	2007 (Restated)	2006 (Restated)
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 51%, 14% 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 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. We intend to apply to register or qualify the issuance of those shares in California, Connecticut, Delaware, Georgia, Illinois, Maryland, Massachusetts, New Jersey, New York and Virginia 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 274,974,896 (assuming that we receive the minimum gross proceeds from this offering (Cdn$6,000,000 or approximately US$5.63 million) at an initial public offering price of Cdn$0.15 (the minimum of our estimated initial public offering price range)) and 285,174,896 (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 $(0.1371) 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 $(0.2115) 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 29% (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$1.0651, the closing buying rate of the Bank of Canada on November 5, 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 (or approximately US$5.63 million). 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$4,800,000. 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 (or approximately US$11.74 million) and estimate that the net proceeds to us, after payment of agents' commissions and offering expenses, would be approximately Cdn$10,750,000.

Assuming that we receive the estimated maximum amount of the proceeds from this offering, we plan to use approximately $1,234,000 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 $215,500 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 was 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. As of the date of this prospectus none of these lenders has demanded payment of these loans. Prior to the closing of this offering, we may borrow up to an additional $200,000 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 (or approximately US$5.63 million) (the minimum gross proceeds of the offering) to Cdn$12,500,000 (or approximately US$11.74 million) (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$746,000 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$)	480,000	640,000	800,000	1,000,000
Estimated expenses of offering (Cdn$)	746,000	746,000	746,000	746,000
Net proceeds from offering (Cdn$)	4,774,000	6,614,000	8,454,000	10,754,000
Net proceeds (US$)	4,482,000	6,209,000	7,937,000	10,096,000
Less use of net proceeds (US$):				
Repayment of debt	1,234,000	1,234,000	1,234,000	1,234,000
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	2,709,000	3,284,000	4,009,000	4,834,000
Unallocated for general working capital	$ 1,773,000	$2,925,000	$ 3,928,000	$ 5,262,000

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$1,773,000 and Cdn$5,262,000 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 7,062,324 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 (or approximately US$5.63 million) (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 (or approximately US$11.74 million), after deducting estimated underwriting commissions and offering expenses of between Cdn$1,226,000 and $1,746,000, and the issuance of between 2,695,832 and 5,591,664 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	Pro Forma	Pro Forma As Adjusted			
	(Unaudited)					
Gross proceeds from offering (Cdn$)			$ 6,000,000	$ 8,000,000	$ 10,000,000	$ 12,500,000
Estimated net proceeds from offering (US$)			4,482,000	6,209,000	7,937,000	10,096,000
Cash and cash equivalents	$ 285,126		4,767,126	6,494,126	8,222,126	10,381,126
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	9,314	274,975	274,975	285,175	285,175
Additional paid-in capital	12,979,093	494,267	17,909,968(1)	19,636,968(1)	21,354,768(2)	23,513,768(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)		1,732,216	3,459,216	5,187,216	7,346,216
Total capitalization	$ (1,170,390)		$ 7,793,610	$ 11,247,610	$ 14,703,610	$ 19,021,610

(1) 274,974,896 shares of common stock issued and outstanding on a pro forma as adjusted basis.

(2) 285,174,896 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 $0.1804 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 2,251,981 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 (or approximately US$5.63 million) (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 (or approximately US$11.74 million), and after deducting estimated underwriting commissions and offering expenses of between Cdn$1,226,000 and Cdn$1,746,000, and the issuance of between 2,695,832 and 5,591,664 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	0.0198	0.0261	0.0318	0.0393
Pro forma as adjusted net tangible book value per share after this offering	0.0037	0.0100	0.0157	0.0232
Assumed gross initial public offering price per unit (US$)	0.1408	0.1876	0.1876	0.2347
Pro forma dilution per share to investors participating in this offering	$ (0.1371)	$ (0.1778)	$ (0.1721)	$ (0.2115)

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$1,226,000 and Cdn$1,746,000, 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	229,583,232	83.5	$13,475,607	75.0	$ 0.0587
Investors participating in this offering	40,000,000	14.5	4,482,208	25.0	0.1121
Agents (in payment of fiscal advisory fee)	5,391,664	2.0	—	0.0	0.0
Total	274,974,896	100.0	$17,957,815	100.0	$ 0.0653
Offering of 40,000,000 units at Cdn$0.20					
Existing stockholders before this offering	229,583,232	83.5	$13,475,607	68.5	$ 0.0587
Investors participating in this offering	40,000,000	14.5	6,209,746	31.5	0.1552
Agents (in payment of fiscal advisory fee)	5,391,664	2.0	—	0.0	0.0
Total	274,974,896	100.0	$19,685,352	100.0	$ 0.0716
Offering of 50,000,000 units at Cdn$0.20					
Existing stockholders before this offering	229,583,232	80.5	$13,475,607	62.9	$ 0.0587
Investors participating in this offering	50,000,000	17.5	7,937,283	32.1	0.1587
Agents (in payment of fiscal advisory fee)	5,591,664	2.0	—	0.0	0.0
Total	285,174,896	100.0	$21,412,890	100.0	$ 0.0751
Offering of 50,000,000 units at Cdn$0.25					
Existing stockholders before this offering	229,583,232	80.5	$13,475,607	57.2	$ 0.0587
Investors participating in this offering	50,000,000	17.5	10,096,705	42.8	0.2019
Agents (in payment of fiscal advisory fee)	5,591,664	2.0	—	0.0	0.0
Total	285,174,896	100.0%	$23,522,311	100.0	$ 0.0827

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 $0.0999 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 common stock issuable upon exercise of then outstanding warrants, having a weighted average exercise price of $0.1804 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 92% of our total sales were comprised of sales to customers in the United States and 8% 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) (Restated)	2008 (Unaudited) (Restated)	2009 (Unaudited) (Restated)	2008 (Unaudited) (Restated)
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 (Restated)	2007 (Restated)	2006 (Restated)
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 35.6 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 $13,500,000 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 17.0% 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 $(0.0176) 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 19.2% of sales for the six month period in 2009 as compared to 19.4% 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. Those early payment discounts offer a 2% discount off the original invoice amount for payment within 7 days. As our normal payment terms average 35 days on this program, the customer's taking of these discounts, reduced their average accounts receivable balance to us by approximately $800,000 in the middle of this program. Our 2008 discount expense related to this program was approximately $75,000 in 2008 and $14,000 in 2007. We intend to continue to offer early payment discounts as long as we continue to operate with a working capital deficit. 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 $0.2333 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 they were 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 $200,000 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.

In June 2009, when preparing our financial statements for the year ended December 31, 2008, we determined that there was no substantial uncertainty regarding our ability to continue as a going concern through December 31, 2009 notwithstanding our history of operating at a loss, our reliance on extensions of credit from three of our major suppliers and our ongoing default under the $500,000 convertible promissory note due on January 31, 2009 as described above. At that time we made that determination, we had almost six months of (unaudited) operating results for fiscal 2009 to take into consideration. Our results of operations (unaudited) for the six months ended June 30, 2009 were gross profit of $1,860,226 on net revenues of $5,082,087 and net income before tax of $(1,487,565). Our operating budget for the six months ended June 30, 2009 forecast gross profit of $2,251,320 on net revenues of $6,460,869 and net income before tax of $(747,785). After adding back depreciation to our losses for the six months ended June 30, 2009, our cash flow for the six months ended June 30, 2009 was $(1,091,157) versus $(2,430,013) for the same period in 2008 or a $1,338,856 improvement. Our budgeted operating cash flow for the six months ended June 30, 2009 was $(459,488). Our improved results of operations for the six months ended June 30, 2009 were largely attributable to the cost reduction program we implemented in November 2008. Under that program we reduced our work force by 20% and reduced costs in most areas of the company, including slightly greater reductions in research and development and smaller reductions 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 improved results of operations for the six months ended June 30, 2009 were also attributable to increased revenues. 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 represented a 5.7% increase for the 2009 period over the comparable 2008 period. Our increased sales were 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. Accordingly we then believed that we were on target to achieve positive cash flow from operations in the three months ending December 31, 2009 as we planned in our operating budget for 2009.

Our operating budget for 2009 assumed that our major suppliers would continue to extend credit to us consistently with their past practice and that the holder of the $500,000 convertible promissory note due on January 31, 2009 under which we were in default would not demand immediate payment of the note. When preparing our financial statements for the 2008 fiscal year, we considered each of those assumptions and determined

that they were still reasonable. The major suppliers on which we have relied for extensions of credit are either stockholders or wholly-owned by one of our stockholders. One of those suppliers, Kopin Corporation, is a publicly traded company and files reports with the SEC. Accordingly, in June 2009 we were able to review its financial condition and determined that Kopin would be able to continue to extend credit to us in manner consistent with its past practice. We also believed that Kopin would continue to take advantage of our early payment discounts as they have done in the past. The other two suppliers on which we have relied for extensions of credit are private companies and we had no direct access to information regarding their financial condition. However, our management has longstanding relationships with the individuals who own those suppliers. Based on conversations with those 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. As of June 2009, all three of these suppliers had continued to extend credit to us consistently with their past practice.

The $500,000 convertible promissory note due on January 31, 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 of the note, provided that we make monthly interest payments on the principal amount of the note at the annual rate of 18%, to which we agreed. As of 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. 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, or if we required additional capital for any other reason, our management would be able to raise the funds necessary either from their personal resources or those of other stockholders who had provided financial resources to us in the past. Since December 2000, we have raised $11,858,000 in equity and debt financing through private placements. We have also borrowed an additional $1,626,000 (in addition to the loan from Ms. Burdick), of which $650,000 was borrowed from current management and stockholders. Our Chief Executive Officer and Chief Financial Officer loaned us an aggregate of $209,208 more than five years ago; in October 2008, our Chief Executive Officer loaned us an additional $215,500 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.

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 were 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 $200,000 from one or more individual lenders, on the same terms and conditions. As of the date of this prospectus none of the lenders has demanded payment of these loans. 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 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 approximately $2,892,000 on net revenues of approximately $7,691,000 and net loss before tax of approximately $(1,785,000). Through September 30, 2009 and to date, our major suppliers have continued to extend credit to us consistently with their past practice and the holder of the $500,000 convertible promissory note due on January 31, 2009 under which we are in default has not demand immediate payment of the note. Our ability to continue as a going concern depends on those suppliers continuing to extend credit to us consistently with their past practice and the holder of that promissory note continuing not to demand immediate payment of the note. We regularly consider the reasonableness of our assumption that they will continue to do so. 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 the event the note holder or a major trade supplier demanded repayment of their overdue accounts payable before the closing of this offering, management would be forced to look immediately for other sources of financing. We have no commitment for any such financing, and such financing may not be available to us on acceptable terms or on any terms. If we cannot obtain such when necessary, our management would have to consider restructuring the company, reducing our operations and/or the sale of a portion or all of the company's assets. Accordingly, 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, 63.6% and 67.7% of our sales were derived from providing goods and services to the US government, directly and indirectly. Of those amounts, 81.4% 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 35.6% 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 45,714,286 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 27,533,469 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)	4,364,931	common stock	March 30, 2000 to May 1, 2009	June 30, 2009 to May 1, 2019	$0.1279	(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 1,399,243 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 2.6 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 $199,260 or $0.00613 per share. Of these shares, Mr. Russell purchased 9,531,022 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 42,856 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 0.4668, exercisable at $0.35 per share for three years from the date on which the note is converted. 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 $0.2333 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 3,787,373 shares of our common stock (including 2,651,064 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 1.7% 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.

Ms. Burdick is not, and in January 2009 was not, a director or executive officer of our company or an immediate family member of any of our directors or executive officers. Except as disclosed above, she does not beneficially own any of our common stock.

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 $215,500. 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 plus interest at the annual rate of 8.0%, and for the repayment of $209,208 loaned 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 (or approximately US$5.63 million) 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 274,974,896 shares of our common stock issued and outstanding assuming the sale of 40,000,000 units in this offering and issuance of 5,391,664 shares to the Canadian agents under our fiscal advisory fee agreement with the Canadian agents and an estimated maximum 285,174,896 shares of our common stock issued and outstanding assuming the sale of 50,000,000 units in this offering and issuance of 5,591,664 shares to the Canadian agents under our fiscal advisory fee agreement with the Canadian agents, and in either case including 9,314,305 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 2,055,564 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 4,867,283 shares of our common stock with a weighted average exercise price of $0.1815 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. In September 2006, in consideration of a loan to us of $500,000, we issued the lender a warrant to purchase our common stock. The warrant is exercisable, upon conversion of the promissory note issued in evidence of the loan, to purchase the number of shares of our common stock equal to the amount of principal and accrued interest on the promissory note then converted divided by $0.4668, at an exercise price per share of $0.35 for three years from the date on which the note is converted. If the convertible promissory note, together with all accrued and unpaid interest thereon, had been converted on the date of this prospectus, 1,325,176 shares of our common stock would have been issuable upon exercise of the warrant at the exercise price of $0.35 per share The shares of common stock issuable upon exercise of this warrant are included in the totals above. We intend to pay the outstanding principal amount of this note in full, together with all accrued and unpaid interest from the proceeds of this offering. If we do so, this warrant will terminate unexercised.

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) $0.05709 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 $0.2333 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 September 30, 2009, 7,148,982 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 1,142,864 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 274,974,896 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 5,391,664 compensation shares) and 285,174,896 shares (assuming the sale of 50,000,000 units and the issuance of 5,591,664 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 $0.05709 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 1,142,864 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.

Designation of Class	Number of Securities Held in Escrow(1)	Percentage of Class Outstanding		
		Prior to the Offering	After 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 for approximately US$5.64 million) 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 JP Morgan Chase Bank, National Association, 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. For purposes of determining whether we have received minimum gross proceeds of Cdn$6,000,000, US dollars received in payment for the units will be converted to Canadian dollars by our Canadian agents at the prevailing US-Canadian dollar exchange rates prior to being deposited with the escrow agent. 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 public offering price for units offered in the United States is payable in US dollars, and the public offering price for units offered in Canada and elsewhere outside the United States is payable in Canadian dollars, except as may otherwise be agreed by the agents. The US dollar amount of the public offering price will be the equivalent of the Canadian dollar amount based on the closing buying rate of the Bank of Canada on the date immediately prior to the effective date of the registration statement of which this prospectus forms a part.

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
(Except for Note 26, as to which the date is November 6, 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 26 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 26, 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) (Restated)	December 31, 2008	December 31, 2007 (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	1,606,559	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 (Restated)	—	—	90,065	—	—	—	—	90,065
Direct IPO Associated Expense	—	—	(96,248)		—	—	—	(96,248)
Adjustment of Subscriptions Receivable (Restated)	—	—	(13,135)	—	—	—	94,181	81,046
Net Loss for the 6 months ended June 30, 2009	—	—	—	(1,487,565)	—	—	—	(1,487,565)
Balance — June 30, 2009 (Unaudited) (Restated)	220,268,927	$220,269	$ 12,979,093	$(16,225,391)	168,500	$ 169	$ (227,336)	$(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 (Restated)	2007 (Restated)	2006 (Restated)
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) (Restated)	(Unaudited) (Restated)	(Unaudited) (Restated)	(Unaudited) (Restated)
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 $0.2333 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 2,632,454 and 2,417,584 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 within three years of the conversion date. 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 1,071,444 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 (Restated)	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 (Restated)	2008 (Restated)	2009 (Restated)	2008 (Restated)
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 — Current and Prior-Period Restatements and Reclassifications

The accompanying consolidated financials for 2008 and the interims periods ending June 30, 2009 and 2008 have been restated after their initial release to reclass recorded sales discounts. These reclasses only affected the reported sales and cost of sales numbers for those periods and had no overall effect on the net losses reported or any other of the financial statements. The sales numbers in Note 23 have been restated by the same amounts. The changes were as follows:

	Year Ending December 31, 2008	3 Months Ending June 30, 2009	3 Months Ending June 30, 2008	6 Months Ending June 30, 2009	6 Months Ending June 30, 2008
Sales (decreases)	$ (74,603)	$(11,675)	$(30,171)	$(37,315)	$(30,442)
Cost of Sales (decreases)	$ (74,603)	$(11,675)	$(30,171)	$(37,315)	$(30,442)
Gross Margin — no change	Nil	Nil	Nil	Nil	Nil

The accompanying consolidated financials for the 2008, 2007 and 2006 and the interim periods ending June 30, 2009 and 2008 have been restated after their initial release to correct an error in the calculation the Weighted Average Number of Common Shares Outstanding and the reported Net Loss Per Common Share. This had no effect on the reported net loss for any of the periods.

	Basic and Diluted Loss per Share (Restated)	Basic and Diluted Loss per Share (As Originally Reported)	Weighted-average Shares Outstanding (Restated)	Weighted-average Shares Outstanding (As Originally Reported)
Year ending Dec 31, 2008	$ (0.0240)	$ (0.0229)	207,710,948	218,268,927
Year ending Dec 31, 2007	$ (0.0176)	$ (0.0160)	185,263,660	197,973,139
Year ending Dec 31, 2006	$ (0.0047)	$ (0.0047)	173,254,715	173,268,048
3 Months ending June 30, 2009	$ (0.0048)	$ (0.0048)	220,268,927	220,268,927
3 Months ending June 30, 2008	$ (0.0057)	$ (0.0057)	200,424,027	201,976,963
6 Months ending June 30, 2009	$ (0.0070)	$ (0.0070)	219,935,594	220,268,927
6 Months ending June 30, 2008	$ (0.0141)	$ (0.0140)	200,015,546	201,976,963

The accompanying consolidated statement of changes in stockholders equity for the interim period ending June 30, 2009 has been restated after its initial release correct typos with incorrect amounts. These errors had no overall effect on the reported net loss or any other of the financial statements. The corrections were as follows:

- Stock Compensation Expense — the amount of $90,065 was not added correctly across the columns
- Adjustment of Subscription Receivable — now reflects a ($13,135) reduction in paid up capital and correctly adds across as previously the total was missing,

- Balance — June 30, 2009 — The ending amount of Additional Paid-In Capital has been reduced by $1 to $12,979,093 to correct an addition error and the ending total of Subscription Receivable has the correct total of $227,336.

The accompanying consolidated balance sheet as at June 30, 2008 has been restated to correct an error recognized after its initial release. The change involves a typographical error in the sub-total line item, Total Long-Term Liabilities. The amount was revised to $1,606,559.

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.

The accompanying Notes to the consolidated financial statements have been restated to correct errors recognized after their initial release. By Note number they are:

- Note 11 — The conversion price of the $500,000 Note Payable has been corrected to $0.2333 per share.
- Note 11 — The total number of common shares that would be potentially issued on conversion as of December 31, 2008 and 2007 has been corrected to 2,632,454 and 2,417,584 respectively.
- Note 16 — The warrant exercise termination date was incorrectly listed as September 31, 2009 but instead this warrant, if it came into effect would be exercisable at $0.35 per share for 36 months after the date of conversion.
- Note 16 — The number of shares that could be issued upon the conversion of the principal of the note and the exercise of the resulting warrants has been corrected to 1,071,444 (previously 1,071,225).

Table of Contents

Table of Contents

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

Table of Contents

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, which amended and restated the preliminary prospectus dated June 30, 2009.

A copy of this amended and restated preliminary base PREP 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 amended and restated preliminary base PREP 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 ● , 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 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.

TABLE OF CONTENTS

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.

Alternate page for Canadian Prospectus

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 ● , 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. 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.

Alternate page for Canadian Prospectus

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 ● , as escrow agent.

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

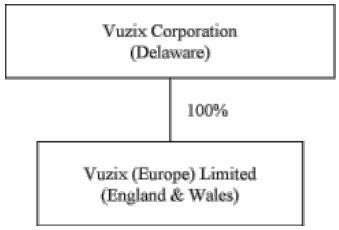
In the opinion of Wildeboer Dellelce LLP, our Canadian counsel, and McCullough O'Connor Irwin LLP, the Canadian counsel to the Agents, provided that the relevant provisions of the Tax Act and the regulations thereunder remain unamended at the time that the Shares and Warrants are listed on a designated 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	$ 15,320
TSX-V filing fee	$ 42,000
Blue sky qualification fees and expenses	$ 15,500
Printing and engraving expenses	$ 15,000
Legal fees and expenses	$550,000
Accounting fees and expenses	$ 30,000
Transfer agents and registrar fees and expenses	$ 23,700
Miscellaneous expenses	$ 10,000
Total	$706,953

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. 4 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 10th day of November, 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. 4 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)*	November 10, 2009
/s/ Grant Russell Grant Russell	Chief Financial Officer, Secretary and Treasurer *(Principal Financial and Accounting Officer)*	November 10, 2009
/s/ William Lee William Lee	Director	November 10, 2009

Index to Exhibits

1.1	Form of Agency Agreement
3.1(1)	Certificate of Incorporation currently in effect
3.2(3)	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(3)	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(3)	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(3)†	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(3)	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(3)†	Distribution and Manufacturing Agreement dated August 27, 2009 between the registrant and YuView Holdings Ltd.
10.20(3)	Convertible Promissory Note dated September 19, 2006 in the original principal amount of $500,000 by the registrant to Sally Hyde Burdick

10.21	Form of Escrow Agreement by and among the registrant, Canaccord Capital Corporation the other Offering Agents (as defined therein) and JP Morgan Chase Bank, National Association, as escrow agent
16.1(3)	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(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

(3) Previously filed as exhibit to Amendment No. 3 to the Registration Statement on Form S-1 filed October 16, 2009

+ Management contract or compensation plan or arrangement

† Confidential treatment requested as to certain portions

Exhibit 1.1

FORM OF AGENCY AGREEMENT

November ◆, 2009

Vuzix Corporation
75 Town Centre Drive
Rochester, New York, 14623

Attention: Paul J. Travers, President & Chief Executive Officer

Dear Sirs:

The undersigned, Canaccord Capital Corporation ("**Canaccord**") and Bolder Investment Partners, Ltd. ("**Bolder**" and, together with Canaccord, the "**Canadian Agents**"), and Canaccord Adams Inc. (the "**U.S. Agent**", and together, with the Canadian Agents, the "**Agents**") understand that Vuzix Corporation, a Delaware corporation (the "**Company**"), proposes to complete its initial public offering by offering for sale a minimum of ◆ units of the Company (the "**Offered Units**") and a maximum of ◆ Offered Units at a price (the "**Offering Price**") of $◆ per Offered Unit to raise minimum gross proceeds of $6,000,000 and maximum gross proceeds of $12,500,000 (the "**Offering**"). Each Offered Unit is comprised of one share of common stock of the Company (the "**Offered Shares**") and one-half of one common stock purchase warrant (each whole common stock purchase warrant, a "**Warrant**" and collectively, the "**Warrants**"). Each whole Warrant will entitle the holder to purchase one additional share of common stock of the Company (the "**Warrant Shares**") at a price of $◆ at any time until ◆, 2012, subject to acceleration in accordance with the terms of the Warrant Indenture (as defined below).

The Canadian Agents propose to offer the Offered Units for sale (through the U.S. Agent in the case of sales to U.S. Persons as defined below), as agents of the Company, on a commercially reasonable "best efforts" basis, in the manner contemplated by this Agreement to investors (the "**Purchasers**") pursuant to the terms and conditions of this Agreement.

1. Definitions

1.1 In this Agreement the following terms will have the following meanings:

(a) "**Agency Fee**" has the meaning given to it in Section 6.1;

(b) "**Agents**" has the meaning given to it in the first paragraph of this Agreement;

(c) "**Agreement**" means this agreement as it may be amended, modified or supplemented from time to time in accordance with its terms;

(d) "**Applicable Securities Laws**" means, collectively, the Canadian Securities Laws and the U.S. Securities Laws;

(e) "**Business Day**" means a day other than a Saturday, a Sunday or a statutory holiday in the Provinces of British Columbia or Ontario or the State of New York;

(f) "**Canadian Commissions**" means the securities regulatory authorities in each of the Qualifying Provinces;

(g) "**Canadian Prospectus**" means, collectively, the Preliminary Canadian Prospectus, the Final Canadian Prospectus and the Canadian Supplemented Prospectus;

(h) "**Canadian Securities Laws**" means all applicable securities laws in each of the Qualifying Provinces and the respective regulations and rules under such laws together with applicable published policy statements, notices and rulings adopted by the Canadian Commissions;

(i) "**Canadian Supplemented Prospectus**" means a supplemented Canadian prospectus that complies with NI 44-103;

(j) "**Claims**" has the meaning given to it in Section 10.1;

(k) "**Closing**" means the completion of the issue and sale by the Company of the Offered Units pursuant to this Agreement;

(l) "**Closing Date**" means ◆, 2009 or such other date not later than ◆, 2009 **[NTD: 90 days after Effective Date]** as the Company and the Agents may agree upon in writing or as may be changed pursuant to Section 8.2;

(m) "**Closing Time**" means 8:00 a.m. (Toronto time) on the Closing Date or such other time on the Closing Date as the Company and the Agents may agree;

(n) "**Compensation Options**" has the meaning given to it in Section 6.2 of this Agreement;

(o) "**Compensation Option Shares**" means the shares of common stock of the Company issuable upon exercise of the Compensation Options;

(p) "**Compensation Option Warrants**" means the common stock purchase warrants of the Company issuable upon exercise of the Compensation Options;

(q) **"Compensation Option Warrant Shares**" means the shares of common stock of the Company issuable upon exercise of the Compensation Option Warrants;

(r) "**Distribution**" means "distribution" or "distribution to the public" as those terms are defined under Canadian Securities Laws;

(s) "**Distribution Period**" means the period commencing on June 30, 2009 and ending (i) in Canada, on the date of the completion of the Distribution of the Offered Units; and (ii) in the United States on the earlier of the expiry date of the Warrants or the date the last Warrant has been exercised;

(t) "**Effective Date**" and "**Effective Time**" mean, respectively, the date and the time as of which the Registration Statement, or the most recent post-effective amendment thereto, if any, are declared effective by the SEC;

(u) "**Final Canadian Prospectus**" means the (final) base PREP prospectus of the Company dated ◆ 2009, filed with the OSC, as principal regulator, and the other Canadian Commissions in accordance with MI 11-202 and NI 44-103;

(v) "**Final Receipt**" means the receipt of the OSC issued in accordance with MI 11-102 and NP 11-202 evidencing that a receipt for the Final Canadian Prospectus has been issued by each of the Canadian Commissions;

(w) "**Final U.S. Prospectus**" means the (final) prospectus of the Company dated ◆, 2009 filed with the SEC pursuant to Rule 424(b) of the SEC Rules;

(x) "**Jurisdictions**" means each of the Qualifying Provinces and the United States;

(y) "**Leased Premises**" means all premises which are material to the Company or the Operating Subsidiary and which the Company or the Operating Subsidiary occupy as a tenant;

(z) "**Material Adverse Effect**" means, with respect to any person or entity, a material adverse effect on the business, affairs, property, liabilities (contingent or otherwise), operating results, capital or prospects of such person or entity on a consolidated basis;

(aa) "**Material Contracts**" means each of the agreements referred to in the Final Canadian Prospectus under the heading "Material Contracts" which have been executed on or before such date as the context may require;

(bb) "**MI 11-102**" means Multilateral Instrument 11-102 — *Passport System* of the Canadian Securities Administrators;

(cc) "**NI 41-101**" means National Instrument 41-101 — *General Prospectus Requirements* of the Canadian Securities Administrators;

(dd) "**NI 44-103**" means National Instrument 44-103 — *Post-Receipt Pricing* of the Canadian Securities Administrators;

(ee) "**Notice**" has the meaning given to it in Section 20;

(ff) "**NP 11-202**" means National Policy 11-202 — *Process for Prospectus Reviews in Multiple Jurisdictions* of the Canadian Securities Administrators;

(gg) "**Offered Units**" has the meaning given to it in the first paragraph of this Agreement;

(hh) "**Offering**" has the meaning given to it in the first paragraph of this Agreement;

(ii) "**Operating Subsidiary**" means Vuzix (Europe) Limited;

(jj) "**OSC**" means the Ontario Securities Commission;

(kk) "**Permits**" has the meaning given in Section 2.1(ggg);

(ll) "**Preliminary Canadian Prospectus**" means, collectively: (i) the preliminary prospectus of the Company dated June 30, 2009; and (ii) the Amended and Restated preliminary base PREP prospectuses dated September 4, 2009 and October 16, 2009, each as filed with the OSC and the other Canadian Commissions pursuant to MI 11-202 and NI 44-103, as applicable;

(mm) "**Preliminary Prospectuses**" means the Preliminary Canadian Prospectus and the Preliminary U.S. Prospectus;

(nn) "**Preliminary Receipt**" means the receipt of the OSC issued in accordance with MI 11-102 and NP 11-202 evidencing that a receipt for the Preliminary Canadian Prospectus has been issued by each of the Canadian Commissions;

(oo) "**Preliminary U.S. Prospectus**" means each prospectus included in the Registration Statement, or amendments thereof, before it became effective under the U.S. Securities Act and any prospectus filed with the SEC by the Company with the consent of the Agents pursuant to Rule 424(a) of the SEC Rules;

(pp) "**Prospectus Amendment**" means any amendment and supplement to the Final Canadian Prospectus or the Final U.S. Prospectus;

(qq) "**Prospectuses**" means the Canadian Supplemented Prospectus and the Final U.S. Prospectus;

(rr) "**Purchasers**" has the meaning given to it in the fourth paragraph of this Agreement;

(ss) "**Qualifying Provinces**" means each of the provinces of Canada except Quebec;

(tt) "**Registration Statement**" has the meaning given to it in Section 2.1(a);

(uu) "**SEC**" means the United States Securities and Exchange Commission;

(vv) "**SEC Rules**" means the rules and regulations of the SEC;

(ww) "**Securities**" means the Offered Units, the Offered Shares, the Warrants, the Warrant Shares, the Compensation Options, the Compensation Option Shares, the Compensation Option Warrants and the Compensation Option Warrant Shares;

(xx) "**Sub-Agent**" has the meaning given to it in Section 3.2;

(yy) "**Supplemental Receipt**" means the receipt of the OSC issued in accordance with MI 11-102 and NP 11-202 evidencing that a receipt for the Canadian Supplemented Prospectus has been issued by each of the Canadian Commissions;

(zz) "**to the best of the knowledge of**" means (unless otherwise expressly stated) a statement to the best of the declarant's knowledge after due inquiry and, in the case of the Company, means the knowledge after due inquiry of each of Paul Travers and Grant Russell;

(aaa) "**Transaction Documents**" means this Agreement and the Warrant Indenture;

(bbb) "**TSX-V**" means the TSX Venture Exchange;

(ccc) "**U.S. Exchange Act**" means the United States *Securities Exchange Act of 1934*, as amended and the rules and regulations made thereunder;

(ddd) "**U.S. Person**" has the meaning ascribed thereto in Rule 902(k) of Regulation S promulgated under the U.S. Securities Act;

(eee) "**U.S. Securities Act**" means the United States *Securities Act of 1933*, as amended;

(fff) "**U.S. Securities Laws**" means all applicable securities legislation in the United States, including without limitation, the U.S. Securities Act, the *U.S. Exchange Act* of 1934, the SEC Rules and any applicable state securities laws;

(ggg) "**Warrant**" has the meaning ascribed thereto in the first paragraph of this Agreement;

(hhh) "**Warrant Indenture**" means a Warrant Indenture to be dated as of the Closing Date between the Company and Computershare Trust Company of Canada, as warrant agent, establishing the terms of the Warrants; and

(iii) "**Warrant Shares**" has the meaning given to it in the first paragraph of this Agreement.

Unless otherwise expressly provided in this Agreement, words importing only the singular number include the plural and vice versa and words importing gender include all genders. References to "**paragraph**" and "**Section**" (unless otherwise indicated) are to the appropriate paragraphs and sections of this Agreement. Unless the context otherwise requires, any reference to a statute shall be deemed to include regulations made pursuant thereto, all amendments in force from time to time, and any statute or regulation that may be passed which has the effect of supplementing or superseding the statute or regulation referred to.

2. Representations, Warranties and Covenants of the Company

2.1 The Company hereby represents, warrants and covenants as follows to each of the Agents and acknowledges that each of the Agents is relying upon such representations, warranties and covenants in connection with its execution and delivery of this Agreement. All references in this

Section 2.1 to the Company shall, to the extent that the representations and warranties below are applicable to the Operating Subsidiary, be deemed to include the Operating Subsidiary.

(a) A Registration Statement (as hereinafter defined) on Form S-1 with respect to the Offering has (i) been prepared by the Company in conformity with the requirements of the U.S. Securities Act, and the SEC Rules thereunder, (ii) been filed with the SEC under the U.S. Securities Act, and (iii) was declared effective under the U.S. Securities Act as of the Effective Time. Copies of such registration statement and the amendments thereto have been delivered by the Company to the Agents. As used in this Agreement, "**Registration Statement**" means such registration statement, as amended at the Effective Time, including all information contained in the Final U.S. Prospectus filed with the SEC pursuant to Rule 424(b) of the SEC Rules and deemed to be a part of the registration statement as of the Effective Time pursuant to paragraph (b) of Rule 430A of the SEC Rules. The SEC has not issued any order preventing or suspending the use of any Preliminary U.S. Prospectus;

(b) The Company has prepared and filed the Preliminary Canadian Prospectus and Final Canadian Prospectus with the OSC, as principal regulator under MI 11-102 and the other Canadian Commissions. The Company has obtained the Preliminary Receipt and Final Receipt issued by the OSC, in its capacity as principal regulator. Copies of the Preliminary Canadian Prospectus and Final Canadian Prospectus have been delivered by the Company to the Agents;

(c) Upon the filing or delivery to the Purchasers resident in the United States of the Final U.S. Prospectus, and at the Closing Date, as applicable, the Registration Statement (and any post-effective amendment thereto) and the Final U.S. Prospectus (as amended or as supplemented if the Company shall have filed with the SEC any amendment or supplement to the Registration Statement or the Final U.S. Prospectus) will contain all statements which are required to be stated therein in accordance with the U.S. Securities Act and the SEC Rules, complied or will comply, as applicable, in all material respects with the U.S. Securities Act and the SEC Rules, and did not or will not, as applicable, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein (in the light of the circumstances under which they were made, in the case of the Final U.S. Prospectus) not misleading, each Preliminary U.S. Prospectus, as of the date filed with the SEC, did not include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; except that no representation or warranty is made in this Section with respect to: (i) statements or omissions made in reliance upon and in conformity with written information furnished to the Company by the Agents expressly for inclusion in any Preliminary U.S. Prospectus, the Registration Statement, or the Final U.S. Prospectus, or any amendment or supplement thereto; or (ii) facts supplemented, modified or superseded by information or statements contained in the Prospectus Amendment relating to pricing of the Offering. The Company will not distribute any offering material in connection with the offering and sale of the Offered

Units, other than the Registration Statement, the Preliminary Prospectuses, the Prospectuses and any Prospectus Amendments;

(d) On the date of filing of the Preliminary Canadian Prospectus with the Canadian Commissions and the date of filing of the Final Canadian Prospectus with the Canadian Commissions, as applicable, (i) all information and statements (except information and statements relating solely to the Agents), contained therein were true and correct in all material respects and contained no misrepresentation and constitute full, true and plain disclosure of all material facts relating to the Company, its business and properties, and the Securities (except for any facts supplemented, modified or superseded by the information or statements contained in the Canadian Supplemented Prospectus); (ii) no material fact or information has been omitted from such disclosure (except facts or information relating solely to the Agents) which is required to be stated in such disclosure or is necessary to make the information contained in such disclosure not misleading in light of the circumstances under which it was made (except for any facts supplemented, modified or superseded by the information or statements contained in the Canadian Supplemented Prospectus); and (iii) such documents complied in all material respects with the requirements of the Canadian Securities Laws;

(e) The Company is, and will be at the Closing Date, a duly organized, validly subsisting legal entity established under the laws of the State of Delaware, is in good standing in its jurisdiction of incorporation, duly licensed or qualified as a foreign corporation for transaction of business and in good standing under the laws of each other jurisdiction in which its ownership or lease of property or the conduct of its business requires such license or qualification, except where the failure to be so qualified or in good standing or have such corporate power or authority would not, individually or in the aggregate, have a Material Adverse Effect and has all requisite power and authority to own, lease and operate its properties and assets as set out in the Preliminary Prospectuses and as will be set out in the Prospectuses, as applicable, and conduct its activities as contemplated thereby;

(f) The Operating Subsidiary is, and will be at the Closing Date, a duly organized, validly subsisting legal entity established under the laws of England and Wales, is in good standing in its jurisdiction of incorporation and in good standing under the laws of each other jurisdiction in which its ownership or lease of property or the conduct of its business requires such license or qualification, except where the failure to be so qualified or in good standing or have such power or authority would not, individually or in the aggregate, have a Material Adverse Effect and has all requisite corporate power and authority to own, lease and operate its properties and assets as set out in the Preliminary Prospectuses and as will be set out in the Prospectuses, as applicable, and conduct its activities as contemplated thereby;

(g) The Company has no direct or indirect subsidiaries other than the Operating Subsidiary, and the Company beneficially owns, directly or indirectly, all of the issued and outstanding shares in the capital of the Operating Subsidiary free and

clear of all mortgages, liens, charges, pledges, security interests, encumbrances, claims or demands of any kind whatsoever, all of such shares have been duly authorized and validly issued and are outstanding as fully paid and non-assessable shares and no person has any right, agreement or option, present or future, contingent or absolute, or any right capable of becoming a right, agreement or option, for the purchase from the Company of any interest in any of the shares or for the issue or allotment of any unissued shares in the capital of the Operating Subsidiary or any other security convertible into or exchangeable for any such shares;

(h) Except as disclosed in the Prospectuses, the Company is, and will be at the Closing Date, the beneficial owner of the properties, business and assets or the interests in the properties, business or assets referred to in the Preliminary Prospectuses and the Prospectuses, as applicable, free and clear of all mortgages, liens, charges, pledges, security interests, encumbrances, claims or demands whatsoever and neither the Company nor, to the best of the Company's knowledge, any other party is in breach of or default under any agreement by which the Company holds an interest in a property, business or assets;

(i) The Company is authorized to issue (a) up to 700,000,000 shares of its common stock, with a par value of US$0.001 per share, of ◆ which shares of common stock are validly issued and outstanding, fully paid and non-assessable, and (b) up to 500,000 shares of preferred stock, with a par value of US$0.001 per share, issuable in series, none of which is issued and outstanding and the Company is not subject to any pre-emptive or similar rights. The Company, at the Effective Time and upon the filing of the Prospectuses, had an authorized, issued and outstanding capitalization as set forth in the Registration Statement and the Prospectuses (other than the grant of additional options under the Company's existing stock option plans, or changes in the number of outstanding shares of common stock of the Company due to the issuance of shares upon the exercise or conversion of securities exercisable for, or convertible into, shares of the Company's common stock outstanding on the date hereof, and the issuance of the Securities pursuant to the Offering and such other securities issuable to the Agents as more particularly disclosed in the Prospectuses) and such authorized capital stock conforms to the description thereof set forth in the Registration Statement and the Prospectuses. The description of the authorized and issued securities of the Company in the Registration Statement and the Prospectuses is complete and accurate in all material respects;

(j) The description of the convertible debt of the Company under the caption "Description of Capital Stock" in the Registration Statement and the Prospectuses is complete and accurate in all material respects;

(k) Except as disclosed in the Prospectuses, no person has any agreement, option, right or privilege (whether pre-emptive or contractual) capable of becoming an agreement for the purchase, subscription or issuance of any securities of the Company from or by the Company and no rights, warrants or options to acquire,

or instruments convertible into or exchangeable for, any securities of the Company, are outstanding;

(l) The Company has all requisite corporate power and authority and will take all actions required to: (i) enter into and deliver the Transaction Documents and to carry out all the terms and provisions hereof and thereof; and (ii) issue, sell and deliver the Securities in accordance with the provisions of the Transaction Documents, as applicable;

(m) Except as disclosed in the Prospectuses, the Company is not in violation of its certificate of incorporation and bylaws or in breach or violation of any of the terms or provisions of, or in default (whether after notice or lapse of time or both) thereunder, and the execution, delivery, performance and compliance of or with the terms of this Agreement, the Warrants, the Compensation Options, the Warrant Indenture and the other Material Contracts to which it is a party, and the issue and sale of the Securities by the Company pursuant to the Prospectuses does not and will not result in any breach, violation or default, under (i) any of the Material Contracts, (ii) any indenture, mortgage, deed of trust, loan agreement or other agreement (written or oral) or instrument to which it is a party or by which it is bound or to which any of its property or assets is subject where such breach, violation or default could have a Material Adverse Effect on the Company, (iii) its certificate of incorporation and bylaws, or (iv) any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over it or any of its business or properties;

(n) The Offering complies in all material respects with Canadian Securities Laws and the U.S. Securities Act, except to the extent that exemptions therefrom have been obtained from the Canadian Commissions or the SEC, as applicable;

(o) Other than as may be required by, and as have or will have been obtained prior to Closing under Canadian Securities Laws and the U.S. Securities Laws, no consent, approval, authorization, order, registration or qualification of or with any court or governmental agency or body is required for the issue, sale and delivery of the Securities as contemplated in this Agreement or the consummation by the Company of the transactions contemplated in the Transaction Documents;

(p) No order, ruling or determination having the effect of ceasing, suspending or restricting trading in any securities of the Company or the sale of the Securities have been issued and, to the best of the knowledge of the Company, no such proceedings, investigations or inquiries are pending or threatened;

(q) The Offered Shares will be authorized after the execution of this Agreement and before Closing by the Company and, when issued and delivered and paid for as provided herein, will be validly issued, fully paid and non-assessable and will conform to the descriptions thereof in the Prospectuses; and the issuance of the Offered Shares is not subject to any pre-emptive or similar rights. The Warrants and the Compensation Options will, on Closing, be duly authorized and created by the Company and, when issued and delivered as provided herein, will be

validly issued and will conform to the descriptions thereof in the Prospectuses. The Warrant Shares, the Compensation Option Shares and the Compensation Option Warrant Shares will, on Closing, be duly authorized and reserved for issuance pursuant to the terms of the Warrants, the Compensation Options and the Compensation Option Warrants, as applicable and, when issued and delivered by the Company upon valid exercise of the Warrants, the Compensation Options and the Compensation Option Warrants, as applicable, and payment of the applicable exercise price therefor, will be duly and validly issued, fully paid, and non-assessable and will not be subject to pre-emptive or similar rights;

(r) Each of EFP Rotenberg, LLP, the current auditors of the Company, and Davie Kaplan, CPA, P.C., the former auditors of the Company, who have certified certain financial statements of the Company, are independent public accountants (the "**Accountants**") with respect to the Company, as required by the U.S. Securities Laws and Canadian Securities Laws. The financial statements and the related notes included in the Preliminary Prospectuses, and the financial statements and the related notes that will be included upon the Effective Time of the Registration Statement and the filing of the Prospectuses will present fairly, in all material respects, the financial condition of the Company as of the dates thereof and the consolidated results of its operations and cash flows at the dates and for the periods covered thereby in conformity with generally accepted accounting principles ("**GAAP**") applied in the United States on a consistent basis throughout the periods involved (except (i) as may be otherwise indicated in such financial statements or the notes thereto or (ii) in the case of unaudited interim financial statements, to the extent that they may not include footnotes or may be condensed or summary statements). No other consolidated financial statements or schedules of the Company or any other entity are required by the U.S. Securities Act or the SEC Rules, or will be required by the U.S. Securities Act or the SEC Rules, to be included in the Preliminary U.S. Prospectus, the Registration Statement or the Final U.S. Prospectus or by Canadian Securities Laws to be included in the Canadian Prospectus. The consolidated financial statements of the Company and the related notes and schedules included in the Preliminary Prospectuses and to be included in the Registration Statement and the Prospectuses have been prepared, or will be prepared, as applicable, in conformity with the requirements of the U.S. Securities Laws and Canadian Securities Laws and present, or will present, as applicable, fairly the information shown therein;

(s) There has not been any reportable event (within the meaning of section 4.11 of National Instrument 51-102 — *Continuous Disclosure Obligations* of the Canadian Securities Administrators) or reportable disagreements with the auditors or former auditors of the Company;

(t) The Company's auditors have not provided any material comments or recommendations to the Company regarding its accounting policies, internal control systems or other accounting or financial practices;

(u) To the best knowledge of the Company, there is no pending change or contemplated change to any applicable law or regulation that would materially

adversely affect the business of the Company or the business or legal environment under which the Company operates;

(v) All information which has been prepared by the Company relating to the Company and its business, properties and liabilities and either publicly disclosed or provided to the Agents, including all financial, marketing, sales and operational information provided to the Agents is, as of the date of such information, true and correct in all material respects (other than forecasts, projections or other forward looking statements), and no fact or facts have been omitted therefrom which would make such information misleading. All such forecasts, projections and other forward looking statements are based on information which the Company believed to be true and correct in all material respects as of the date thereof;

(w) Except as disclosed in the Prospectuses, as applicable, the Company is not a party, nor will the Company be a party, to any agreement, and, to the best knowledge of the Company, there is and will be no agreement among any other parties, which in any manner affects the voting control of any of the securities of the Company;

(x) Except as disclosed in the Prospectuses, the Company does not have any loans or other indebtedness outstanding which have been made to any of its shareholders, officers, directors or employees, past or present, or any person not dealing at "**arm's length**" (as such term is defined in the *Income Tax Act* (Canada)) with them;

(y) Except as disclosed in the Prospectuses, with respect to each of the Leased Premises, the Company or the Operating Subsidiary occupies the Leased Premises, has the exclusive right to occupy and use the Leased Premises and each of the leases pursuant to which the Company or the Operating Subsidiary occupies the Leased Premises is in good standing and in full force and effect. The performance of its obligations pursuant to and in compliance with the terms of this Agreement and the completion of the transactions described herein by the Company, will not afford any of the parties to such leases or any other person the right to terminate such lease or the Company's or the Operating Subsidiary's right to occupy and use the Leased Premises or, result in any additional or more onerous obligations under such leases;

(z) No proceedings have been taken, instituted or, to the knowledge of the Company, are pending for the dissolution or liquidation of the Company;

(aa) The Company shall use its reasonable commercial efforts to fulfill or cause to be fulfilled, at or prior to the Closing Date, each of the conditions set out in Section 7;

(bb) The Company will promptly notify the Agents in writing if, prior to termination of the distribution of the Offered Securities, there shall occur any material change or change in a material fact (in either case, whether actual, anticipated, contemplated or threatened and other than a change or change in fact relating solely to the Agents) or any event or development involving a prospective

material change or a change in a material fact or any other material change concerning the Company or any other change which is of such a nature as to result in, or could be considered reasonably likely to result in, a misrepresentation in the Registration Statement, the Prospectuses or a Prospectus Amendment, as they exist immediately prior to such change, or could render any of the foregoing, as they exist immediately prior to such change, not in compliance with any of the Applicable Securities Laws;

(cc) Each of the Material Contracts to which the Company is a party has been (or will be at the Closing Time) duly executed and delivered by the Company, as the case may be, and constitute (or will constitute when executed) legal, valid and binding obligations of the Company, as the case may be, enforceable against it in accordance with their terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws relating to or affecting the rights of creditors generally, and except as limited by the application of equitable principles when equitable remedies are sought and by the fact that rights to indemnity, contribution and waiver, and the ability to sever unenforceable terms, may be limited by applicable law;

(dd) With the exception of the Material Contracts, there are no other material contracts of or pertaining to the Company other than contracts entered into by the Company in the ordinary course of its business;

(ee) There are no legal or governmental actions, proceedings or investigations in existence to which the Company is a party or to which the property of the Company is subject or, to the best of the knowledge of the Company, contemplated or threatened, at law or in equity or before or by any federal, state, provincial, municipal or other governmental department, commission, board or agency, domestic or foreign, which (i) could have a Material Adverse Effect on the Company, or (ii) question the validity of the issuance, sale or delivery, as applicable, of the Securities or the validity of any action taken or to be taken by the Company pursuant to or in connection with the Transaction Documents or any of the Material Contracts;

(ff) There are no current or pending legal, governmental or regulatory investigations, actions, suits or proceedings involving the Company, its Operating Subsidiary, or, to the best of the Company's knowledge, its officers or its directors that are required under the U.S. Securities Laws or in compliance with the Canadian Securities Laws to be described in the Preliminary Prospectuses or the Prospectuses, as applicable, that are not so described or that will not so be described;

(gg) There are no contracts or other documents that are required under the U.S. Securities Act to be filed as exhibits to the Registration Statement that will not so be filed;

(hh) Computershare Trust Company, N.A., at its principal office in Golden, Colorado has been duly appointed as the registrar and transfer agent for the shares of the

Company's common stock and Computershare Investor Services Inc., at its principal office in Toronto, Ontario has been duly appointed as the co-registrar and co-transfer agent for the shares of the Company's common stock;

(ii) The shares of the Company's common stock have been conditionally approved for listing on the TSX-V and the Company will use its commercially reasonable efforts to: (i) obtain final listing approval from the TSX-V as soon as reasonably possible following the Closing; and (ii) to maintain a listing for the shares of its common stock on the TSX-V. For greater certainty, it will not be considered reasonable to maintain such listing and status if to do so would hinder or impede, in any way, any effort on the part of the Company, if it is determined by the board of directors of the Company to be in the best interests of the Company or its shareholders, to effect, or to take any steps in furtherance of, any business combination (whether by way of a merger, plan of arrangement, consolidation, share or other security exchange transaction, recapitalization, asset acquisition or other transaction) involving any one or more of itself or any of its subsidiaries or affiliates and completed in accordance with Applicable Securities Laws;

(jj) The Company will apply the net proceeds from the Offering substantially in accordance with the description set forth in the Prospectuses under the heading "**Use of Proceeds**";

(kk) Except as provided herein and except in respect of any Sub-Agent, there is no person, firm or corporation acting or purporting to act for the Company entitled to any brokerage or finder's fee in connection with this Agreement or any of the transactions contemplated hereunder, and in the event any person, firm or corporation acting or purporting to act for the Company becomes entitled at law to any fee from the Agents, the Company covenants to indemnify and hold harmless the Agents with respect thereto and with respect to all costs reasonably incurred in the defence thereof;

(ll) Other than as disclosed in the Prospectuses, since December 31, 2008:

(i) there has been no material change (actual, anticipated, proposed or prospective, whether financial or otherwise) in the business, affairs, operations, assets, liabilities (contingent or otherwise) prospects, financial position, capital or control of the Company, taken as a whole;

(ii) the Company has carried on its business in the ordinary course and there has been no transaction entered into by the Company which is material to the Company, taken as a whole, other than those in the ordinary course of business;

(iii) the Company has not incurred or surrendered any right of material value; and

(iv) there has been no material change in the capital or long term debt of the Company, taken as a whole;

(mm) Other than as disclosed in the Prospectuses:

(i) the Company is not liable for any material debts, liabilities or other obligations of any third party, whether by way of guarantee or indemnity or other contingent or indirect obligation;

(ii) all indebtedness of the Company is being paid, or will be paid, in the ordinary course of business; and

(iii) the Company is not a party to any agreement restricting the Company from engaging in any line of business which the Company currently engages or proposes to engage in or competing with any other person in any business in which the Company is currently engaged or proposes to engage in;

(nn) Other than as disclosed in writing to the Agents, since its incorporation, the Company has not directly or indirectly declared or paid any dividend or declared or made any other distribution on any of its securities of any class, or directly or indirectly, redeemed, purchased or otherwise acquired any of its securities, or agreed to do any of the foregoing;

(oo) Other than as disclosed in the Registration Statement and the Prospectuses or as disclosed in writing to the Agents, the Company has not entered into and does not have any present intention to enter into any agreement or acquire any securities in any other corporation or entity or to acquire or lease any other business operation which would be material to the business and operations of the Company, taken as a whole;

(pp) The assets of the Company and its business and operations are insured against loss or damage with responsible insurers, and such coverage is in full force and effect, and the Company has not failed to promptly give any notice or present any material claim thereunder;

(qq) All minute books and corporate records of the Company have been made available to McCullough O'Connor Irwin LLP, Canadian counsel to the Agents and Dorsey & Whitney LLP, U.S. counsel to the Agents, in connection with due diligence investigations of the Company, each minute book contained complete documentation in all material respects of all proceedings of the shareholders, the board of directors and all committees of the board of directors of the Company for their periods from their respective dates of incorporation, amalgamation or acquisition by the Company, as the case may be, to the date hereof, and there have been no meetings, resolutions or proceedings since the date of review which are material in the context of the Company, taken as a whole;

(rr) The Company owns, or possesses adequate rights or licenses to use, all intellectual property (the "**Intellectual Property**") necessary or material for use in connection with its business, except where the failure to so own or possess the

same could not reasonably be expected to have a Material Adverse Effect on the Company;

(ss) Other than as disclosed in the Registration Statement and the Prospectus, the Company either has good and marketable title to the Intellectual Property free and clear of any encumbrance (other than encumbrances disclosed in the Registration Statement and the Prospectuses) or holds a valid license agreement or arrangement to use the Intellectual Property and each such license agreement or arrangement to which the Company is a party to is valid and subsisting and, to the knowledge of the Company, is in good standing and there is no default thereunder;

(tt) Other than as disclosed in writing to the Agents, to the best of the knowledge of the Company, no person has threatened, sent notice of, interfered with, infringed upon, misappropriated, or otherwise come into conflict with or commenced any legal proceeding claiming adverse ownership, invalidity or conflict with respect to any of the Intellectual Property or challenging any rights of the Company in and to any of the Intellectual Property, or the right of the Company to use any of the Intellectual Property;

(uu) The Company has not threatened, sent notice of or commenced any legal proceeding challenging the intellectual property of any other person and, to the best of the knowledge of the Company, no other person is using any intellectual property which conflicts with, infringes upon or violates the rights of the Company in and to the Intellectual Property;

(vv) The Company has taken (i) reasonable security measures to protect the confidentiality of all of its trade secrets necessary or desirable to conduct its business, and (ii) reasonable commercial efforts in accordance with sound business practices and judgment to establish, maintain and protect each of the material Intellectual Property rights that it owns or uses;

(ww) All employees of, and consultants to, the Company have entered into proprietary rights or similar agreements with the Company in the forms provided to the Agents and, to the best of the Company's knowledge, no employee of, or consultant to, the Company is in violation thereof;

(xx) All persons having access to or knowledge of the Intellectual Property or any information of a confidential nature that is necessary or required or otherwise used for or in connection with the conduct or operation or proposed conduct or operation of the Company's business have entered into non-disclosure agreements with the Company. To the best of the Company's knowledge, there has been no breach of any of such agreement, except where such breaches would not have a Material Adverse Effect. To the best of the knowledge of the Company, the employment or engagement by the Company of such persons does not violate any non disclosure or non competition agreement between any such person and a third party;

(yy) None of the shareholders, directors or officers of the Company or any associate or affiliate of any of the foregoing had, has or, to the best of the knowledge of the Company, intends to have any material interest, direct or indirect, in any material transaction contemplated by this Agreement, any of the Material Contracts, the Preliminary Prospectuses, the Prospectuses or the Registration Statement or in any proposed material transaction with the Company which materially affects, is material to or will materially affect the Company, except to the extent disclosed, or to be disclosed, as applicable, in the Preliminary Prospectuses, the Prospectuses or the Registration Statement;

(zz) No relationship, direct or indirect, exists between the Company, on the one hand, and the directors, officers, stockholders, customers or suppliers of the Company, on the other, or will exist, as applicable, which is required by the U.S. Securities Laws to be disclosed in the Registration Statement, the Preliminary U.S. Prospectus or the Final U.S. Prospectus or by Canadian Securities Laws to be disclosed in the Canadian Prospectus and is not so disclosed, or will not be disclosed, as applicable;

(aaa) The Company has been and is in material compliance with all laws respecting employment and employment practices, terms and conditions of employment, pay equity and wages, except where non-compliance would not have a Material Adverse Effect, and has not engaged in any unfair labour practice;

(bbb) All of the information provided to the Agents or to counsel for the Agents by the Company and, to the best of its knowledge, by its officers and directors and the holders of any securities or options to acquire any securities of the Company in connection with letters, filings or other supplemental information provided to the Financial Industry Regulatory Authority ("**FINRA**") pursuant to FINRA Corporate Financing Rule 5110 is to the best of the Company's knowledge true, complete and correct;

(ccc) The Company is and will be at the Closing Time in compliance with all regulations relating to its contacts with the United States government, including, but not limited to, compliance with all Federal Acquisition Regulations ("**FAR**") and agency-specific acquisition regulations that implement or supplement the FAR, such as the Defense Federal Acquisition Regulations of the United States Department of Defense, except for such non-compliance that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect;

(ddd) The Company has duly and on a timely basis filed all tax returns required to be filed by it, has paid all taxes due and payable by it and has paid all assessments and re-assessments and all other taxes, governmental charges, penalties, interest and other fines due and payable by it and which are claimed by any governmental authority to be due and owing, and adequate provision has been made for taxes payable for any completed fiscal period for which tax returns are not yet required to be filed; there are no agreements, waivers or other arrangements providing for an extension of time with respect to the filing of any tax return or payment of any

tax, governmental charge or deficiency by the Company; there are no actions, suits or proceedings threatened or pending against the Company in respect of taxes, governmental charges or assessments and there are no matters under discussion with any governmental authority relating to taxes, governmental charges or assessments asserted by any such authority;

(eee) Except as set forth in or otherwise contemplated by the Registration Statement or the Prospectuses, the Company possesses or has obtained all licenses, certificates, permits and other authorizations issued by, and has made all declarations and filings with, the appropriate federal, state, local or foreign governmental or regulatory authorities that are necessary for the ownership or lease of its respective properties or the conduct of its respective businesses as described in the Preliminary Prospectuses and as will be described in the Registration Statement and the Prospectuses, as applicable (the "**Permits**"), except where the failure to possess, obtain or make the same would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; and except as disclosed in or contemplated by the Registration Statement or the Prospectuses, the Company has not received written notice of any proceeding relating to revocation or modification of any such Permit or has any reason to believe that such Permit will not be renewed in the ordinary course, except where the failure to obtain any such renewal would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect;

(fff) Each material employee benefit plan, within the meaning of Section 3(3) of the *Employee Retirement Income Security Act of 1974*, as amended ("**ERISA**"), that is maintained, administered or contributed to by the Company or any of its affiliates for employees or former employees of the Company has been maintained in material compliance with its terms and the requirements of any applicable statutes, orders, rules and regulations, including but not limited to ERISA and the Internal Revenue Code of 1986, as amended (the "**Code**"); no prohibited transaction, within the meaning of Section 406 of ERISA or Section 4975 of Title 26 of the Code, has occurred which would result in a material liability to the Company with respect to any such plan excluding transactions effected pursuant to a statutory or administrative exemption; and for each such plan that is subject to the funding rules of Section 412 of Title 26 of the Code or Section 302 of ERISA, no "**accumulated funding deficiency**" as defined in Section 412 of Title 26 of the Code has been incurred, whether or not waived, and the fair market value of the assets of each such plan (excluding for these purposes accrued but unpaid contributions) exceeds the present value of all benefits accrued under such plan determined using reasonable actuarial assumptions;

(ggg) There is and has been no failure on the part of the Company and any of the Company's directors or officers, in their capacities as such, to comply with any applicable provisions of the *Sarbanes-Oxley Act of 2002* and the rules and regulations promulgated therewith (the "**Sarbanes-Oxley Act**");

(hhh) The Company maintains systems of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with

management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences;

(iii) The Company has been and is in compliance with all applicable federal, state, municipal and local laws, statutes, ordinances, bylaws, regulations, orders, directives and decisions (the "**Environmental Laws**") rendered by any ministry, department or administrative or regulatory agency ("**Environmental Authority**") relating to the protection of human health and safety, the environment or pollutants, contaminants, chemicals, or industrial, toxic or hazardous wastes or substances ("**Hazardous Substances**") and no condition exists or event has occurred which, with or without notice or the passage of time or both, would constitute a violation of or give rise to liability under any applicable Environment Laws, and there are no environmental audits, evaluations, assessments or studies relating to the Company;

(jjj) The Company has not used or permitted to be used any of its assets or facilities, whether owned, leased, occupied, controlled or licensed or which it owned, leased, occupied, controlled or licensed at any prior time to generate, manufacture, process, distribute, use, treat, store, dispose of, transport or handle any Hazardous Substance except in compliance with all applicable Environmental Laws and Permits;

(kkk) The Company has not received any notice of, or been prosecuted for, an offence alleging violation of or non-compliance with any Environmental Law, nor has it settled any allegation of violation or non-compliance short of prosecution. To the best knowledge of the Company, there are no orders of Environmental Authorities relating to environmental matters requiring any work, repairs, construction or capital expenditures to be made with respect to the business or any property, facilities or assets (whether currently owned, leased, occupied, controlled or licensed or owned, leased, occupied, controlled or licensed at any time prior to the date hereof) of the Company;

(lll) The Company has not received any notice from any Environmental Authority that its business or the operation of any of its properties, facilities or other assets is in violation of any Environmental Law or any Permit or that it is responsible (or potentially responsible) for the clean up of any Hazardous Substances at, on or beneath any of its property, facilities or other assets (whether currently owned, leased, occupied, managed, controlled or licensed, or owned, leased, occupied, managed, controlled or licensed at any time prior to the date hereof), or at, on or beneath any other land or in connection with any waste or contamination migration to or from any of the Company's facilities or other assets;

(mmm) The Company is not and, after giving effect to the offering and sale of the Offered Units and the application of the proceeds thereof as will be described in the Prospectuses, will not be an "**investment company**" or an entity "**controlled**" by an "**investment company**" within the meaning of the *Investment Company Act of 1940*, as amended, and the SEC promulgated thereunder;

(nnn) Neither the Company nor its Operating Subsidiary nor, to the knowledge of the Company, any director, officer, agent, employee, affiliate or other person acting on behalf of the Company or its Operating Subsidiary has taken any action, directly or indirectly, that has resulted or would result in a violation of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (the "**FCPA**"), including, without limitation, making use of the mails or any means or instrumentality of interstate commerce corruptly in furtherance of an offer, payment, promise to pay or authorization of the payment of any money, or other property, gift, promise to give, or authorization of the giving of anything of value to any "foreign official" (as such term is defined in the FCPA) or any foreign political party or official thereof or any candidate for foreign political office, in contravention of the FCPA; and the Company and its Operating Subsidiary and, to the knowledge of the Company, the Company's affiliates have conducted their respective businesses in compliance with the FCPA and have instituted and maintain policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, continued compliance therewith;

(ooo) The operations of the Company are and have been conducted at all times in compliance with applicable financial record keeping and reporting requirements of the *Currency and Foreign Transactions Reporting Act of 1970*, as amended, the money laundering statutes of all jurisdictions to which the Company is subject, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the "**Money Laundering Laws**") and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company with respect to the Money Laundering Laws is pending or, to the best knowledge of the Company, threatened;

(ppp) There are no transactions, arrangements and other relationships between and/or among the Company, and/or, to the knowledge of the Company, any of its affiliates and any unconsolidated entity, including, but not limited to, any structural finance, special purpose or limited purpose entity (each, an "**Off Balance Sheet Transaction**") that could reasonably be expected to affect materially the Company's liquidity or the availability of or requirements for its capital resources, including those Off Balance Sheet Transactions described in the SEC's Statement about Management's Discussion and Analysis of Financial Conditions and Results of Operations (Release Nos. 33-8056; 34-45321; FR-61), required to be described in the Final U.S. Prospectus which have not been described as required;

(qqq) The Company has not at anytime during the last five years (i) used any corporate funds for any unlawful contribution to any candidate for public office, or (ii)

made any payment to any federal or state government officer or official or other person charged with similar public duties, other than payments required or permitted by the laws of the applicable Jurisdictions; and

(rrr) The Company has not taken, directly or indirectly, any action designed to or that could reasonably be expected to cause or result in any stabilization or manipulation of the price of the Offered Units.

2.2 The representations and warranties and covenants of the Company contained in this Section 2 shall be true and correct as of the Closing Date with the same force and effect as if then made by the Company.

3. Appointment of Agents

3.1 The Company hereby appoints the Canadian Agents to act as its exclusive agents, and the Canadian Agents hereby accept such appointment, to effect the sale of the Offered Units at a price of $◆ per Offered Unit, on a commercially reasonable efforts basis, (a) to persons resident in the Qualifying Provinces, and (b) through the U.S. Agent, to or for the benefit or account of U.S. Persons or persons in the United States. The Agents agree to use their reasonable best efforts to sell the Offered Units, but it is hereby understood and agreed that the Agents shall act as agents only and are under no obligation to purchase any of the Offered Units, although an Agent may subscribe for Offered Units, subject to applicable laws, if it so desires. Each of the Agents agrees to use commercially reasonable efforts to secure a distribution of the Offered Units that is broad enough to permit the Company to meet the original listing requirements of the TSX-V.

3.2 The Agents will have the right to form a sub-agency group including other qualified investment dealers (the "**Sub-Agents**"), and may determine the percentage fee payable to the members of such group, which fee will be paid by the Agents out of the Agency Fee.

3.3 For the purposes of this Section, the Agents shall be entitled to assume that the Offered Units are qualified for Distribution in any Jurisdiction where a receipt or similar document (including the Preliminary Receipt, Final Receipt and Supplemental Receipt issued by the OSC as principal regulator) for the applicable Prospectus shall have been obtained from the applicable regulatory authority following the filing of the Prospectuses.

3.4 The Agents shall give the Company reasonable notice of the United States jurisdictions in which they propose to offer and sell the Offered Units, and the Company shall fully and timely co-operate with the Agents and their counsel so as to prepare, execute and timely submit any and all filings which, in the view of the Agents, may be necessary in order to comply with the securities registration provisions of the U.S. Securities Act and applicable state laws.

3.5 Each of the Agents hereby severally, and not jointly, represents, warrants and covenants to the Company that:

(a) it and each of its affiliates will and will use commercially reasonable efforts to cause any Sub-Agent utilized by the Agents for the purposes of this Section 3 to distribute the Offered Units to the public in Canada and in the United States

directly and through other appropriately registered investment dealers and brokers or authorized persons only as permitted by Applicable Securities Laws and upon the terms and conditions set forth in the Prospectuses and in this Agreement;

(b) it and each of its affiliates will and will use commercially reasonable efforts to cause any Sub-Agent for the purposes of this Section 3 to, in each case, use its respective commercially reasonable efforts to solicit subscriptions for and to offer the Offered Units for sale as agent of the Corporation and will do so in Canada and the United States only in compliance with all Applicable Securities Laws;

(c) it, and each such affiliate will not and will use commercially reasonable efforts to cause any Sub-Agent to not, in connection with the Offering, make any representation or warranty with respect to the Offered Units, except pursuant to the Prospectuses;

(d) it, and each such affiliate will and will use commercially reasonable efforts to cause any Sub-Agent, to, in connection with the Offering, provide Purchasers with (i) the Preliminary U.S. Prospectus, the Final U.S. Prospectus and any Prospectus Amendment (in the case of U.S. Persons); and (ii) the Preliminary Canadian Prospectus, the Final Canadian Prospectus and the Canadian Supplemented Prospectus (in the case of Purchasers resident in the Canadian Jurisdictions);

(e) it has all necessary corporate authority to enter into this Agreement and complete the transactions to be completed by it under this Agreement on the terms and conditions set forth herein; and

(f) it and each such affiliate as aforesaid is or will be duly qualified under Applicable Securities Laws in those Jurisdictions in which it, or its affiliates as aforesaid, will act as agent of the Corporation in connection with the Offering as to permit it to lawfully fulfil its obligations under this Agreement and will ensure that any Sub-Agent is so qualified.

3.6 An Agent will not be liable to the Company under this Section or Section 10 with respect to a default by any other Agent under this Section or Section 10 if the former Agent is not also in default.

3.7 The representations and warranties and covenants of the Agents contained in this Section 3 shall be true and correct as of the Closing Date with the same force and effect as if then made by the Agents.

4. Prospectus Filing

The Company agrees:

(a) To prepare the pricing supplement to the Final U.S. Prospectus and any amendment thereto in a form approved by the Agents and to file such pricing supplement pursuant to Rule 424(b) under the U.S. Securities Act not later than

the SEC's close of business on the second business day following the execution and delivery of this Agreement or, if applicable, such earlier time as may be required by Rule 430A(a)(3) under the U.S. Securities Act; to advise the Agents, promptly after it receives notice thereof, of the time when any amendment to the Registration Statement has been filed or becomes effective or any Prospectus Amendment has been filed and to furnish the Agents with copies thereof; to advise the Agents, promptly after it receives notice thereof, of the issuance by the SEC of any stop order or of any order preventing or suspending the use of any Preliminary U.S. Prospectus or the Final U.S. Prospectus, of the suspension of the qualification of the Offered Units or any other securities related thereto for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the SEC for the amending or supplementing of the Registration Statement or the Final U.S. Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of any Preliminary U.S. Prospectus or the Final U.S. Prospectus or suspending any such qualification, to use promptly its best efforts to obtain its withdrawal;

(b) To comply with, to the satisfaction of the Agents, the Canadian Securities Laws required to be complied with by the Company to qualify the distribution in the Qualifying Provinces of the Offered Units and that number of Compensation Options equal to 10% of the number of Offered Units sold pursuant to the Offering through the Agents. All legal requirements to enable the Distribution of the Offered Units and the Compensation Options shall be fulfilled on or prior to the Closing Date. Without limiting the generality of the foregoing, the Company shall, as soon as possible, prepare the Canadian Supplemented Prospectus, which will contain pricing information and which will be filed in each of the Qualifying Provinces no later than two Business Days after the date of this Agreement together with all necessary related documents;

(c) To furnish promptly to the Agents and to counsel for the Agents a signed copy of the Registration Statement as originally filed with the SEC, and each amendment thereto filed with the SEC, including all consents and exhibits filed therewith and a signed copy of the Canadian Supplemented Prospectus in the English language as originally filed with the OSC, and the additional Qualifying Provinces, and each of the additional documents filed with the OSC, and the additional Qualifying Provinces, in connection with such filing. The Company shall cause commercial copies of the Prospectuses to be delivered to the Agents without charge, in such numbers and in such cities as the Agents may reasonably request by oral or written instructions to the printer of the Prospectuses given forthwith after the later of the date on which the Agents have provided such written instructions and the date on which the Supplemental Receipt has been issued. Such delivery shall be effected as soon as possible and, in any event, on or before the date which is two Business Days (or such later day as the Agents and the Company may agree upon) after the Supplemental Receipt has been issued. The commercial copies of the Prospectuses shall be identical in content to the electronically transmitted versions thereof filed with Canadian securities regulatory authorities pursuant to the System for

Electronic Document Analysis and Retrieval of the Canadian Securities Administrators in the case of the Canadian Supplemented Prospectus and applicable Prospectus Amendments and the electronically transmitted version filed on the SEC's Electronic Data Gathering Analysis & Retrieval system for the Final U.S. Prospectus and applicable Prospectus Amendments;

(d) To co-operate in all reasonable respects with the Agents to allow and assist the Agents to participate fully in the preparation of the Prospectuses and any Prospectus Amendment and shall allow the Agents and their counsel to conduct all due diligence investigations which the Agents may reasonably require to fulfill the Agents' obligations as agents and to enable the Agents to execute any certificate required to be executed by the Agents in such documentation; and

(e) The Company will use its commercially reasonable efforts to cause (i) its directors, executive officers and stockholders who will hold more than 2.5% of the Company's outstanding shares of its common stock (or securities exercisable, exchangeable or convertible into shares of the Company's common stock) on a fully-diluted basis immediately after the Closing, to enter into agreements (the "**1 Year Lock-Up Agreements**"), in the form attached as Schedule A to this Agreement, and (ii) its stockholders who will hold more than 1% of the outstanding shares of its common stock (or securities exercisable, exchangeable or convertible into shares of the Company's common stock) on a fully-diluted basis immediately after the Closing and key employees to enter into agreements (the "**6 Month Lock-Up Agreements**"), in the form attached as Schedule B to this Agreement.

5. Distribution Period

5.1 The Company agrees:

(a) To not file, during such period as the Prospectuses would be required to be delivered in connection with sales of the Securities by an underwriter or dealer in connection with the offering contemplated by this Agreement, (i) any amendment to the Registration Statement or supplement to the Final U.S. Prospectus or any Final U.S. Prospectus pursuant to Rule 424 of the SEC Rules, or (ii) any amendment or supplement to the Canadian Supplemented Prospectus, except as required by law, unless a copy thereof shall first have been submitted to the Agents within a reasonable period of time prior to the filing thereof and the Agents shall not have reasonably objected thereto in good faith. The Company shall in good faith discuss with the Agents any fact or change in circumstances (actual, anticipated, contemplated, proposed or threatened, financial or otherwise) which is of such a nature that there is reasonable doubt whether written notice need be given under this Section;

(b) Commencing on the date hereof until the completion of the Distribution Period, to notify the Agents promptly, and will, if requested, confirm such notification in writing, (i) when any post-effective amendment to the Final U.S. Prospectus and the Canadian Supplemented Prospectus have been filed; (ii) of any request by the

SEC for any amendment to the Final U.S. Prospectus or for additional information or request by the Canadian Commissions for an amendment to the Canadian Supplemented Prospectus or for additional information; (iii) of the issuance by the SEC or a Canadian Commission of any stop or "cease trade" order suspending the effectiveness of the Final U.S. Prospectus or the Canadian Supplemented Prospectus or the initiation of any proceedings for that purpose or the threat thereof; (iv) of the Company becoming aware of the occurrence of any event that in the judgment of the Company makes any statement made in the Final U.S. Prospectus or the Canadian Supplemented Prospectus untrue in any material respect or that requires the making of any changes in the Final U.S. Prospectus or the Canadian Supplemented Prospectus in order to make the statements therein, in light of the circumstances in which they are made, not misleading; and (v) of receipt by the Company of any notification with respect to any suspension of the qualification of any of the Securities for offer and sale in any Jurisdiction. If at any time the SEC or a Canadian Commission shall issue any order suspending the effectiveness of the Final U.S. Prospectus or the Canadian Supplemented Prospectus in connection with the offering contemplated hereby, the Company will use its best efforts to obtain the withdrawal of any such order at the earliest possible moment. If the Company has omitted any information from the Final U.S. Prospectus or the Canadian Supplemented Prospectus it will use its best efforts to comply with the provisions of and make all requisite filings with the SEC, pursuant to Rule 430A in the case of the U.S. Final Prospectus, and pursuant to applicable Canadian Securities Laws in the case of the Canadian Supplemented Prospectus and to notify the Agents promptly of all such filings;

(c) If, at any time when the Final U.S. Prospectus or the Canadian Supplemented Prospectus relating to the Securities is required to be delivered under Canadian Securities Laws or the U.S. Securities Act, the Company becomes aware of anything that, would, in the reasonable judgment of counsel to the Company or counsel to the Agents,

(i) constitute a material change (actual, anticipated, contemplated, proposed or threatened, financial or otherwise) in the business, financial condition, affairs, operations, assets, liabilities or obligations (contingent or otherwise) or capital of the Company;

(ii) is a material fact that has arisen or has been discovered which would have been required to have been stated in the Prospectuses or a Prospectus Amendment had the fact arisen or been discovered on, or prior to, the date of the Prospectuses or the Prospectus Amendment;

(iii) constitute a change in any material fact or matter covered by a statement contained in the Prospectuses or any Prospectus Amendment which change is, or may be, of such a nature as to render any statement in the Prospectuses or any Prospectus Amendment misleading or untrue or which would result in a misrepresentation in Prospectuses or any Prospectus Amendment; or

(iv) if for any other reason it is necessary, in the reasonable judgment of counsel to the Company or counsel to the Agents, at any time to amend or supplement the Prospectuses to comply with Canadian Securities Laws or the U.S. Securities Act;

the Company will promptly notify the Agents and, subject to Section 3 hereof, will promptly prepare and file with the Canadian Commissions or the SEC, as applicable, at the Company's expense, a Prospectus Amendment that corrects such statement or omission or effects such compliance and will deliver to the Agents, without charge, such number of copies thereof as the Agents may reasonably request;

(d) If during the Distribution Period there shall be any change in the Canadian Securities Laws or the U.S. Securities Act which, in the opinion of the Agents and their legal counsel, acting reasonably, requires the filing of a Prospectus Amendment, the Company shall promptly prepare and file such Prospectus Amendment, to the reasonable satisfaction of the Agents, with the appropriate Canadian Commissions in each of the Qualifying Provinces where such filing is required or with the SEC where such filing is required; provided that the Company shall not file any Prospectus Amendment or other document without first obtaining the approval of the Agents with respect to the form and content thereof, such approval not to be unreasonably withheld;

(e) The Company will cooperate with the Agents and their counsel in connection with the registration or qualification of the Securities for offer and sale under the state securities or applicable blue sky laws of such jurisdictions in the United States as the Agents may reasonably request; provided, that in no event shall the Company be obligated to qualify to do business in any jurisdiction where it is not now so qualified or to take any action which would subject it to general service of process in any jurisdiction where it is not now so subject;

(f) For a period of two years from the Closing Date, the Company will furnish to the Agents, as soon as they are available, copies of all reports or other communications (financial or other) furnished to holders of its shares of common stock or Warrants, other than any such reports or communications filed with the SEC pursuant to the SEC's Electronic Data Gathering Analysis & Retrieval system and filed with the Canadian Commissions on SEDAR; and

(g) Prior to filing with the SEC any reports containing the disclosure required by Item 701 of Regulation S-K pursuant to Rule 463 of the SEC Rules, to furnish a copy thereof to the counsel for the Agents and receive and consider its comments thereon, and to deliver promptly to the Agents a signed copy of each such report filed by it with the SEC.

5.2 During the Distribution Period, the Company shall promptly, and in any event within any applicable statutory time limitation, comply, to the reasonable satisfaction of the Agents, with all applicable filings and other requirements under the Canadian Securities Laws and the U.S. Securities Act as a result of any material fact or change referred to in Section 5.1 above.

5.3 The Company shall deliver promptly to the Agents signed and certified copies of all Prospectus Amendments and the Agents agree to provide the same to each person who has received the Final U.S. Prospectus or the Canadian Supplemented Prospectus.

5.4 For a period of two years following the Closing Date, the Company shall use its commercially reasonable best efforts to (i) preserve and maintain its corporate existence and remain a reporting issuer under the Applicable Securities Laws in the Qualifying Provinces not in default of any requirement of such Applicable Securities Laws, and (ii) have its shares of common stock remain listed for trading on the TSX-V. For greater certainty, it will not be considered reasonable to maintain such listing and status if to do so would hinder or impede, in any way, any effort on the part of the Company, if it is determined by the board of directors of the Company to be in the best interests of the Company or its shareholders, to effect, or to take any steps in furtherance of, any business combination (whether by way of a merger, plan of arrangement, consolidation, share or other security exchange transaction, recapitalization, asset acquisition or other transaction) involving any one or more of itself or any of its subsidiaries or affiliates and completed in accordance with Applicable Securities Laws.

6. Services Provided by Agents, Agency Fee and Servicing Fee

6.1 In return for the Agents' services provided hereunder including but not limited to acting as the Company's agents in arranging for the sale of the Offered Units, assisting it in the preparation of the Prospectuses and performing administrative work in connection with the sales of the Offered Units, the Company will pay a cash fee (the "**Agency Fee**"), by wire transfer, certified cheque, bank draft, deduction from the gross proceeds paid by the Agents to the Company or other mutually acceptable method at the Closing Time to the Agents, an amount equal to 8% of the total gross proceeds for Offered Units sold pursuant to the Offering. Of such Agency Fee, the Company will pay to the U.S. Agent an amount equal to 6% of the total gross proceeds for Offered Units sold to, or for the benefit or account, of U.S. Persons or persons in the United States by or through the U.S. Agent. The entire amount of the Agency Fee will be paid to the Canadian Agents, and the U.S. Agent's Agency Fee will be paid directly by the Canadian Agents to the U.S. Agent out of the Agency Fee.

6.2 As further consideration for their services hereunder, the Company will issue to or at the direction of the Agents on the Closing Date non-transferable compensation options (the "**Compensation Options**") entitling the Agents to purchase, in the aggregate, such number of Units as is equal to 12.5% of the number of Offered Units sold pursuant to the Offering. Of such Compensation Options, the U.S. Agent shall be issued that number of Compensation Options equal to 8% of the number of Offered Units sold to, or for the benefit or account, of U.S. Persons or persons in the United States by or through the U.S. Agent. The Agents expressly acknowledge that: (i) the distribution of such number of Compensation Options as is equal to 10% of the number of Offered Units sold under the Offering will be qualified under the Prospectuses; (ii) the distribution of the balance of Compensation Options (equal to 2.5% of the number of Offered Units sold under the Offering) will be issued pursuant to exemptions from applicable Canadian prospectus requirements and together with the securities issuable upon exercise thereof, will be subject to resale restrictions under applicable Canadian securities laws.

6.3 The Compensation Options will be exercisable one year following the Closing Date at a price equal to the Offering Price. The other terms governing the Compensation Options will be

set out in the certificates representing the Compensation Options, the form of which will be subject to the approval of the Company and the Agents, acting reasonably, and will include provisions for the appropriate adjustment in the class, number and price of the securities issuable upon exercise of the Compensation Options upon the occurrence of certain events, including upon any subdivision, consolidation or reclassification of shares, payment of stock dividends or amalgamation of the Company.

6.4 The Company will also pay to Canaccord, on behalf of the Canadian Agents, by wire transfer, certified cheque, bank draft, deduction from the gross proceeds paid by the Agents to the Company or other mutually acceptable method at the Closing Time, a non-refundable due diligence fee of $15,000 (the "**Due Diligence Fee**").

7. Closing Conditions

The Agents' obligations hereunder shall be subject to the accuracy of the representations and warranties of the Company contained in this Agreement as of the date of this Agreement and as of the Closing Date, the performance by the Company of its obligations under this Agreement and the following conditions, which conditions may be waived by the Agents in whole or in part at any time:

(a) The Final U.S. Prospectus and pricing Prospectus Amendment shall have been filed on a timely basis with the SEC in accordance with Section 4(a) and the Canadian Supplemented Prospectus shall have been filed on a timely basis with the Canadian Commissions in accordance with Section 4(b); no stop order suspending the effectiveness of the Registration Statement, the Final U.S. Prospectus or the Canadian Supplemented Prospectus or any part thereof or the qualification or registration of the Securities shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the SEC, any Canadian Commission or the TSX-V; and any request of the SEC, any Canadian Commission or the TSX-V for inclusion of additional information in the Registration Statement, the Final U.S. Prospectus or the Canadian Supplemented Prospectus or otherwise shall have been complied with;

(b) All corporate proceedings and other legal matters incident to the authorization, form and validity of this Agreement, the Securities, the Registration Statement, the Preliminary Prospectuses and the Prospectuses, and all other legal matters relating to this Agreement and the transactions contemplated hereby shall be reasonably satisfactory in all material respects to counsel for the Agents, and the Company shall have furnished to such counsel all documents and information that they may reasonably request to enable them to pass upon such matters;

(c) Wildeboer Dellelce LLP, Canadian counsel for the Company shall have furnished to the Agents a legal opinion dated the Closing Date, in form and substance satisfactory to counsel to the Agents in substantially the form attached hereto as Schedule C, which counsel in turn may rely upon the opinions of local counsel where they deem such reliance proper as to the laws other than those of the Province of Ontario and as to matters of fact, on certificates of the auditors of the

Company, public officials and officers of the Company and correspondence between public officials and TSX-V with respect to such matters set forth herein;

(d) Boylan, Brown, Code, Vigdor & Wilson, LLP, U.S. counsel for the Company, shall have furnished to the Agents a legal opinion dated the Closing Date, in form and substance satisfactory to counsel to the Agents in substantially the form attached hereto as Schedule D;

(e) Harter Secrest and Emery LLP, intellectual property counsel for the Company, shall have furnished to the Agents a legal opinion dated the Closing Date, in form and substance satisfactory to counsel to the Agents in substantially the form attached hereto as Schedule E;

(f) At the time of filing of the Prospectuses, the Agents shall have received from each of EFP Rotenberg, LLP, the current auditors of the Company, and Davie Kaplan, CPA, P.C., the former auditors of the Company, a letter or letters, in form and substance satisfactory to the Agents, acting reasonably, addressed to the Agents and dated the date of such filing (i) confirming that they are independent public accountants within the meaning of the U.S. Securities Act and are in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X of the SEC, and (ii) stating, as of the date of such filing (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the Prospectuses, as of a date not more than two Business Days prior to the date of such filing), the conclusions and findings of such firm with respect to the financial information and other matters ordinarily covered by accountants' "comfort letters" to Agents in connection with registered public offerings;

(g) With respect to the letter or letters of each of EFP Rotenberg, LLP, the current auditors of the Company, and Davie Kaplan, CPA, P.L., the former auditors of the Company, referred to in the preceding paragraph (the "**Initial Letters**"), the Company shall have furnished to the Agents a letter (the "**Bring-down Letter**") of such accountants, addressed to the Agents and dated the Closing Date (i) confirming that they remain independent public accountants within the meaning of the U.S. Securities Act and are in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X of the SEC, (ii) stating, as of the date of the Bring-down Letter (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the Final U.S. Prospectus, as of a date not more than two Business Days prior to the date of the Bring-down Letter), the conclusions and findings of such firm with respect to the financial information and other matters covered by the Initial Letters, and (iii) confirming in all material respects the conclusions and findings set forth in the Initial Letters;

(h) The Agents shall have received at the Closing Time certificates dated the Closing Date, addressed to the Agents and signed by or on behalf of the Company with respect to the constitutional documents of the Company, all resolutions of the directors of the Company relating to this Agreement, the incumbency and

specimen signatures of signing officers of the Company and with respect to such other matters as the Agents may reasonably request;

(i) The Agents shall have received at the Closing Time a certificate or certificates dated the Closing Date, addressed to the Agents signed by the Chief Executive Officer and by the Chief Financial Officer of the Company, certifying on behalf of the Company and without personal liability, after having made due enquiry and after having carefully examined the Registration Statement, the Prospectuses and any Prospectus Amendments, that:

(i) since the respective dates as of which information is given in the Registration Statement or the Prospectuses as amended by any Prospectus Amendment (A) there has been no material adverse change (actual, anticipated, contemplated, proposed or threatened, whether financial or otherwise) in the business, financial condition, affairs, operations, assets, liabilities or obligations (contingent or otherwise) or capital of the Company, and (B) no transaction has been entered into by the Company which is material to the Company, other than as disclosed in the Registration Statement, the Prospectuses or the Prospectus Amendments, as the case may be;

(ii) they have carefully examined the Registration Statement and the Prospectuses and, in their opinion (A) as of the Effective Date, the Registration Statement and the Prospectuses did not include any untrue statement of a material fact and did not omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and (B) since the Effective Date, no event has occurred which should have been set forth in a supplement or amendment to the Registration Statement or the Prospectuses which has not been so set forth;

(iii) the Company has complied with and satisfied the covenants, terms and conditions of this Agreement on its part to be complied with and satisfied up to the Closing Time; and

(iv) the representations and warranties of the Company contained in this Agreement are true and correct as of the Closing Date with the same force and effect as if made at and as of the Closing Time after giving effect to the transactions contemplated by this Agreement.

(j) The Agents will be satisfied, in their sole discretion, with the due diligence review of the Company and the Operating Subsidiary and the respective business operations performed by them and their representatives;

(k) Subsequent to the execution and delivery of this Agreement there shall not have occurred any of the events set out in Section 9.1(a) to (g);

(l) No Agent shall have discovered and disclosed to the Company on or prior to such Closing Date that the Registration Statement, the Final U.S. Prospectus or the Final Canadian Prospectus, or any amendment or supplement thereto contains an untrue statement of a fact which, in the reasonable opinion of the Agents is material or omits to state a fact which, in the reasonable opinion of the Agents, is material and is required to be stated therein or is necessary to make the statements therein not misleading;

(m) The Agents shall have received such other certificates, statutory declarations, opinions, agreements or materials in form and substance satisfactory to the Agents as the Agents may reasonably request; and

(n) At the Closing Time, the Company shall have issued to the Canadian Agents such number of shares of its common stock as are required pursuant to the Fiscal Advisory Fee Agreement dated as of June 29, 2009 between the Company and the Canadian Agents and the issuance of such shares shall be exempt from the prospectus requirement of Applicable Canadian Securities Laws.

8. Closing

8.1 The Closing will be effected as follows:

(a) The purchase and sale of the Offered Units for which orders have been received shall be completed at the offices of Wildeboer Dellelce LLP, in the City of Toronto, at the Closing Time;

(b) The delivery of the Offered Units shall be made to the Purchasers at the Closing Time in the form of one definitive certificate representing the Offered Shares and one definitive certificate representing the Warrants; each such certificate registered in the name of CDS & Co. (or as it may direct) against payment to the Company of the purchase price therefor;

(c) At the Closing Time, the Agents will deliver to the Company, by wire transfer, certified cheque, bank draft or other mutually acceptable method, the aggregate purchase price for the Offered Units sold, being $◆ per Offered Unit issued, net of the Agency Fee, the Due Diligence Fee plus any amounts payable in respect of the Agents' expenses as provided for in Section 13; and

(d) The obligations of each of the Agents and the Company to complete the Closing shall be subject to the condition that subscriptions for a minimum of $6,000,000 of Offered Units have been received and not withdrawn on or before the Closing Date and subject to the condition that all applicable periods during which Purchasers may withdraw subscriptions under Canadian Securities Laws and the U.S. Securities Act shall have expired. Pending satisfaction of these conditions, proceeds from subscriptions will be held by the Agents or on their behalf by a suitable financial institution. If these conditions are not satisfied or the Closing does not occur for any reason the Agents shall ensure that the subscription

proceeds received from prospective Purchasers are returned by the Agents to such Purchasers promptly without interest or deduction.

8.2 Subject to Section 7, if a material change or a change in a material fact such as is contemplated by Section 5.1 occurs prior to the Closing Date, the Closing Date shall be, unless the Agents otherwise agree in writing, and provided that all applicable periods during which Purchasers may withdraw subscriptions under Canadian Securities Laws and the U.S. Securities Act have expired, the sixth Business Day following the later of the date on which all applicable filings or other requirements of the Canadian Securities Laws and the U.S. Securities Act with respect to such material change or change in a material fact have been complied with in all applicable Jurisdictions and any appropriate receipts obtained for such filings and notice of such filings from the Company or its counsel have been received by the Agents and the date upon which the commercial copies of any Prospectus Amendments have been delivered in accordance with Section 5.3.

9. Rights of Termination

9.1 The Agents, or any one of them, shall be entitled, at their or its option, to terminate and cancel their or its obligations under this Agreement, by written notice to that effect given to the Company at any time prior to the Closing Time, if prior to the Closing Time:

(a) any order to cease or suspend trading in any securities of the Company, or prohibiting or restricting the distribution of the Offered Units or the Compensation Options is made, announced or threatened, or proceedings are commenced, announced or threatened for the making of any such order, by any securities commission or similar regulatory authority, or by any other competent authority, and has not been rescinded, revoked or withdrawn;

(b) any inquiry, investigation or other proceeding is commenced, announced or threatened or any order or ruling is issued under or pursuant to any law, or any change of law or the interpretation or administration thereof is enacted, announced or threatened, which, in the opinion of any Agent, acting reasonably, operates or would operate to prevent or materially restrict the trading in or the distribution of the Offered Shares or Warrants in any of the Jurisdictions or would materially adversely affect the marketability of the Offered Units;

(c) trading in securities generally on the TSX-V or in the over-the-counter market shall have been suspended or materially limited or the settlement of such trading generally shall have been materially disrupted or minimum prices shall have been established on any such exchange or such market, by such exchange or by any other regulatory body or governmental authority having jurisdiction,

(d) there should develop, occur or come into effect or existence any event, action, state (including terrorism), condition or major financial occurrence of national or international consequence or any action, law, regulation, enquiry or other occurrence of any nature whatsoever which, in the reasonable opinion of any Agent, or involve, materially adversely affects or involves, or will or could reasonably be expected to, materially adversely affect or involve, the marketability of the Offered Units, the Canadian, U.S. or international financial markets or the business, operations or affairs of the Company;

(e) there shall have occurred such a material adverse change in general economic, political or financial conditions (or the effect of international conditions on the financial markets in any Jurisdictions shall be such), including, without limitation, as a result of terrorist activities after the date hereof, or any other calamity or crisis as to make it, in the judgment of the Agents, impracticable or inadvisable to proceed with the public offering or delivery of the Offered Units being delivered on such Closing Date on the terms and in the manner contemplated in the Prospectuses,

(f) the state of the Canadian, U.S. or international financial markets is such that, in the opinion of any Agent, acting reasonably, the Offered Units cannot be marketed profitability;

(g) there shall occur any material change or change in material fact which, in the reasonable opinion of the Agents, would be expected to have a significant adverse effect on the market price or value of the Offered Units;

(h) the Agents are not satisfied, in their sole discretion, with the due diligence review of the Company and the Operating Subsidiary and the respective business operations performed by them and their representatives;

(i) the Agents are advised that the TSX-V will not approve the listing of the shares of the Company's common stock; or

(j) Closing shall not have occurred within 90 days of the issuance of the Final Receipt.

9.2 The Company agrees that all terms and conditions in Section 7 shall be construed as conditions and complied with so far as they relate to acts to be performed or caused to be performed by it, that it will use its reasonable commercial efforts to cause such conditions to be complied with, and that any breach or failure by it to comply in all material respects with any such terms and conditions shall entitle any of the Agents to terminate its obligations under this Agreement by notice to that effect given to the Company at or prior to the Closing Time. The

Agents may waive, in whole or in part, or extend the time for compliance with, any terms and conditions without prejudice to their rights in respect of any other terms and conditions or any other subsequent breach or non-compliance, provided that any such waiver or extension shall be binding upon the Agents only if such waiver or extension is in writing and signed by all of the Agents.

9.3 The rights of termination contained in Section 9 may be exercised by any of the Agents and are in addition to any other rights or remedies any of the Agents may have in respect of any default, act or failure to act or non-compliance by the Company, in respect of any of the matters contemplated by this Agreement or otherwise. In the event of any such termination, there shall be no further liability on the part of the terminating Agent to the Company or on the part of the Company to the terminating Agent except in respect of any liability which may have arisen prior to or after such termination under any of the Sections 10.8, 10.9 and 10.10. A notice of termination given by an Agent under Section 9.1 shall not be binding upon any other Agent.

10. Indemnification

10.1 The Company hereby agrees to indemnify and hold each of the Agents and each of their subsidiaries and affiliates, and each of their directors, officers, employees and agents (hereinafter referred to as the "**Personnel**") harmless from and against any and all expenses, losses (other than loss of profits), fees, claims, actions (including shareholder actions, derivative actions or otherwise), damages, obligations, or liabilities, whether joint or several, and the reasonable fees and expenses of their counsel, that may be incurred in advising with respect to and/or defending any actual or threatened claims, actions, suits, investigations or proceedings to which the Agents and/or their Personnel may become subject or otherwise involved in any capacity under any statute or common law, or otherwise insofar as such expenses, losses, claims, damages, liabilities or actions arise out of or are based, directly or indirectly, upon the performance or professional services rendered to the Company by the applicable Agent and its respective Personnel hereunder (including the aggregate amount paid in reasonable settlement of any such actions, suits, investigations, proceedings or claims that may be made against the applicable Agent and/or its respective Personnel (collectively, the "**Claims**")), provided, however, that this indemnity shall not apply to the extent that a court of competent jurisdiction in a final judgment that has become non-appealable shall determine that:

(a) the applicable Agent and/or its respective Personnel have been negligent or has committed wilful misconduct or any fraudulent act in the course of such performance; and

(b) the expenses, losses, claims, damages or liabilities, as to which indemnification is claimed, were primarily caused by the negligence, wilful misconduct or fraud referred to in (a).

10.2 Without limiting the generality of the foregoing, this indemnity shall apply to all reasonable expenses (including reasonable legal expenses), losses, claims and liabilities that the Agents may incur as a result of any action or litigation that may be threatened or brought against the Agents and/or their Personnel.

10.3 If for any reason (other than the occurrence of any of the events itemized in 10.1(a) and 10.1(b) above), the foregoing indemnification is unavailable to the Agents or any Personnel or is insufficient to hold the Agents or any Personnel harmless as a result of such expense, loss, claim, damage or liability in such proportion as is appropriate to reflect not only the relative benefits received by the Company on the one hand and the Agents or any Personnel on the other hand but also the relative fault of the Company and the Agents or any Personnel, as well as any relevant equitable considerations; provided that the Company shall in any event contribute to the amount paid or payable by the Agents or any Personnel as a result of such expense, loss, claim, damage or liability and any excess of such amount over the amount of the fees received by the Agents hereunder.

10.4 The Company agrees that in case any legal proceeding shall be brought against the Company, the Agents and/or any of their Personnel by any governmental commission or regulatory authority, or any stock exchange or other entity having regulatory authority, either domestic or foreign, shall investigate the Company, the Agents and/or any of their respective Personnel shall be required to testify in connection therewith or shall be required to respond to procedures designed to discover information regarding, in connection with, or by reason of the performance of professional services rendered to the Company, the Agents shall have the right to employ their own counsel in connection therewith provided that the Agents act reasonably in selecting such counsel, and the reasonable fees and expenses of such counsel as well as the reasonable costs (including an amount to reimburse the Agents for time spent by their Personnel in connection therewith) and out-of-pocket expenses incurred by their Personnel in connection therewith shall be paid by the Company as they occur. Notwithstanding the foregoing, the Company shall not be obliged to reimburse the fees and expenses of more than one set of Canadian counsel and one set of U.S. counsel to the Agents and the Personnel.

10.5 Promptly after receipt of notice of the commencement of any legal proceeding against either of the Agents or any of their respective Personnel or after receipt of notice of the commencement or any investigation, which is based, directly or indirectly, upon any matter in respect of which indemnification may be sought from the Company, the Agents will notify the Company in writing of the commencement thereof, and throughout the course thereof, will provide copies of all relevant documentation to the Company, will keep the Company advised of the progress thereof and will discuss with the Company all significant actions proposed.

10.6 The failure by the Agents to notify the Company will not relieve the Company of its obligations to indemnify the Agents and/or any such Personnel unless such failure prejudices any defences that might have been available to the Company. The Company shall, on behalf of itself and the Agents, and/or any such Personnel, as applicable, be entitled (but not required) to assume the defence of any suit brought to enforce such legal proceeding; provided, however, that the defence shall be conducted through legal counsel acceptable to the Agents and/or any such Personnel, as applicable, acting reasonably, that no settlement of any such legal proceeding may be made by the Company without the prior written consent of the Agents and/or any such Personnel, as applicable, and neither of the Agents nor any Personnel, as applicable, shall be liable for any settlement of any such legal proceeding unless it has consented in writing to such settlement, such consent not to be unreasonably withheld. The Agents and their Personnel shall have the right to appoint their own separate counsel at the Company's cost, provided the Agents act reasonably in selecting such counsel and provided further that in no event shall the Company

be responsible for the fees and expenses of more than one set of Canadian counsel and one set of U.S. counsel to the Agents and their Personnel.

10.7 The indemnity and contribution obligations of the Company shall be in addition to any liability, which the Company may otherwise have, shall extend upon the same terms and conditions to the Personnel of the applicable Agent and shall be binding upon and inure to the benefit of any successors, assigns, heirs and personal representatives of the Company, the applicable Agent, and any of the Personnel of such Agent. The foregoing provisions shall survive the completion of professional service rendered under this Agreement.

10.8 The rights of indemnity contained in this Section 10 in respect of a claim based on a misrepresentation or omission or alleged misrepresentation or alleged omission in the Registration Statement, the Preliminary Prospectuses, the Prospectuses or the Prospectus Amendments shall not apply if the Company has complied with Section 7(a) and the person asserting such claim was not provided with a copy of the Registration Statement, the Preliminary Prospectuses, Prospectuses or a Prospectus Amendment (which is required under the applicable Canadian Securities Laws to be delivered to such person by the Agents or the Sub-Agents) which corrects such misrepresentation or omission or alleged misrepresentation or alleged omission provided that the Company has complied with its obligations pursuant to Section 4 and 5.

10.9 Neither the Company nor the Agents and/or any of their Personnel will, without the other's prior written consent, settle, compromise, consent to the entry of any judgment in or otherwise seek to terminate any action, suit, proceeding, investigation or claim in respect of which indemnification may be sought hereunder (whether or not any Agent and/or any of its Personnel is a party thereto) unless such settlement, compromise, consent or termination includes a release of each applicable Agent and/or any of its Personnel from any liabilities arising out of such action, suit, proceeding, investigation or claim.

10.10 No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the U.S. Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

11. General Limitations of Liability

The Company also agrees that none of the Agents and/or any of their Personnel shall have any liability (whether direct or indirect, in contract or tort or otherwise) to the Company or any person asserting claims on behalf of or in right of the Company for or in connection with the Offering or any other matter or transaction contemplated by this Agreement except to the extent any losses, expenses, claims, actions, damages or liabilities incurred by the Company are determined by a court of competent jurisdiction in a final judgment that has become non-appealable to have resulted from the negligence or wilful misconduct of the Agents and/or any of their Personnel or a breach by such Agents and/or any of their Personnel of their obligations under this Agreement.

12. Severability

If any provision of this Agreement is determined to be void or unenforceable in whole or in part, it shall be deemed not to affect or impair the validity of any other provision of this Agreement and such void or unenforceable provision shall be severable from this Agreement.

13. Expenses

Whether or not the transactions contemplated by this Agreement shall be completed, except as specifically provided below, all expenses of or incidental to the issue, sale and delivery of the Offered Units and all expenses of or incidental to all other matters in connection with the Offering set out in this Agreement shall be borne directly by the Company, including, without limitation, fees and expenses payable in connection with the qualification of the Offered Units for distribution, the fees relating to the listing of the shares of the Company's common stock on the TSX-V, all fees and disbursements of counsel to the Company, all fees and disbursements of counsel to the Agents and local counsel, all fees and expenses of the Company's auditors, the fees and expenses relating to the marketing of the Offered Units (including, without limitation, "road shows", marketing meetings and marketing documentation) and all reasonable out-of-pocket expenses of the Agents relating to this transaction including all travel expenses in connection with due diligence and marketing and all costs incurred in connection with the preparation, translation, filing, printing and mailing of the Prospectuses and Prospectus Amendments. Bolder acknowledges receipt from the Company of a retainer of $10,000 and Canaccord acknowledges receipt from the Company of a retainer of US$10,000. All reasonable expenses incurred by the Canadian Agents and the fees and disbursements of counsel to the Agents shall be payable forthwith upon receiving an invoice therefore.

14. Restriction on Further Sales

Without the prior written consent of Canaccord, on behalf of all of the Agents, such consent not to be unreasonably withheld, for a period beginning on the date hereof and ending 90 days after the Closing Date, the Company will not issue for sale or resale any shares or financial instruments or securities convertible into or exercisable or exchangeable for shares in its capital except as follows:

(a) as described in or contemplated by the Prospectus;

(b) the issuance of options and shares of common stock pursuant to and in accordance with share compensation arrangements adopted by the Company, including upon the due exercise of any options issued pursuant to such arrangements; or

(c) in satisfaction of any debts or liabilities owed by the Company; provided that the issued price ascribed to the shares of common stock for such purposes shall not be less than the Offering Price.

15. Obligation of Agents

15.1 The rights and obligations of the Agents under this Agreement, including but not limited to the right and obligation to offer for sale the Offered Units, shall be several and not joint and

several and shall be limited as regards each Agent to the percentage of the Offered Units set out opposite the name of such Agent below:

Canaccord Capital Corporation	35%
Bolder Investment Partners, Ltd.	35%
To be determined on a “jump ball” basis	30%

15.2 If any Canadian Agent fails to sell its applicable percentage of the Offered Units at the Closing Time, the remaining Canadian Agent shall have the right, but shall not be obligated, to offer or sell such Offered Units. Nothing in this Agreement shall obligate the U.S. Agent to sell the Offered Units. The U.S. Agent will make offers and sales of the Offered Units to U.S. Persons only as an agent for a Canadian Agent.

15.3 If any of the Canadian Agents shall exercise its right of termination under Section 9, the remaining Canadian Agent shall have the right, but shall not be obligated, to offer or sell all of the Offered Units, which would otherwise have been offered by such Canadian Agent which has so exercised its right of termination.

15.4 This Agreement will be construed in relation to each Agent as if separate agreements had been made between the Company and each Agent.

16. Survival of Representations and Warranties

The representations, warranties, obligations and agreements contained in this Agreement and in any certificate delivered pursuant to this Agreement or in connection with the purchase and sale of the Offered Units shall survive the purchase of the Offered Units and shall continue in full force and effect for a period of two years unaffected by any subsequent disposition of the Offered Units or the termination of the Agents’ obligations hereunder and shall not be limited or prejudiced by any investigation made by or on behalf of the Agents in connection with the preparation of the Preliminary Prospectuses, the Prospectuses, any Prospectus Amendment, the Registration Statement or the distribution of the Offered Units.

17. Time of the Essence

Time shall be of the essence of this Agreement.

18. Governing Law

This Agreement shall be governed by and construed in accordance with the laws of Ontario and the federal laws of Canada applicable therein.

19. Funds

All funds referred to in this Agreement shall be in Canadian dollars, except as otherwise provided.

20. Notice

20.1 Unless otherwise expressly provided in this Agreement, any notice or other communication to be given under this Agreement (a "**Notice**") shall be in writing addressed as follows:

If to the Company addressed and sent to:

Vuzix Corporation
75 Town Centre Drive
Rochester, New York, 14623

Attention: Paul J. Travers
Facsimile: (585) 359-4172

with a copy to:

Wildeboer Dellelce LLP
Suite 800, Wildeboer Dellelce Place
365 Bay Street
Toronto, Ontario M5H 2V1

Attention: Robert Fonn
Fax: 416-361-1790

Boylan, Brown, Code, Vigdor & Wilson, LLP
2400 Chase Square
Rochester, New York 14604

Attention: Robert F. Mechur
Fax: 585-232-3528

If to the Agents addressed and sent to:

Canaccord Capital Corporation
Suite 2200 — 609 Granville Street
P.O. BOX 10337, Pacific Centre
Vancouver, British Columbia V7Y 1H2

Attention: David Rentz
Fax: 604-643-7733

Bolder Investment Partners, Ltd.
Suite 800 — 1450 Creekside Drive
Vancouver, British Columbia V6J 5B3

Attention: Paul Woodward
Fax: 604-714-2326

Canaccord Adams Inc.
99 High Street, 12th Floor
Boston, Massachusetts 02110

Attention: Jennifer Pardi
Fax: 617-788-1553

with a copy to:

McCullough O'Connor Irwin LLP
1100 — 888 Dunsmuir Street
Vancouver, British Columbia V6C 3K4

Attention: James Beeby
Fax: 604-687-7099

Dorsey & Whitney LLP
TD Canada Trust Tower
Brookfield Place
161 Bay Street, Suite 4310
Toronto, Ontario M5J 2S1

Attention: Kenneth G. Sam
Fax: 416-367-7371

or to such other address as any of the persons may designate by Notice given to the others.

20.2 Each Notice shall be personally delivered or sent by commercial courier to the addressee or sent by fax to the addressee and (i) a Notice which is couriered or personally delivered shall, if delivered on a Business Day, be deemed to be given and received on that day and, in any other case, be deemed to be given and received on the first Business Day following the day on which it is delivered, and (ii) a Notice which is sent by fax shall be deemed to be given and received on the first Business Day following the day on which it is sent.

21. Entire Agreement

This Agreement and those provisions of the engagement letter agreement dated June 29, 2009 among the Company and the Canadian Agents that by their terms survive the execution of this Agreement constitute the entire agreement between the parties hereto with respect to the subject matter hereof, provided however that to the extent any such provisions are inconsistent with the provisions of this Agreement, the provisions of this Agreement shall govern.

22. Press Releases and Advertisements

From and after the date hereof, the Company shall provide the Agents with a copy of all press releases and advertisements to be issued by the Company concerning the Offering prior to the issuance thereof, and shall give the Agents a reasonable opportunity to provide comments on any such press release or advertisement.

23. Authority of Canaccord

Canaccord is hereby authorized by the other Agents to act on their behalf and the Company shall be entitled to and shall act on any Notice given in accordance with Section 4 or agreement entered into by or on behalf of the Agents by Canaccord, which represents and warrants that it has irrevocable authority to bind the Agents, except in respect of any consent to an admission of liability pursuant to Section 11 which consent shall be given by each of the Agents or a notice of termination pursuant to Section 9.1 which notice may be given by any of the Agents, or any waiver pursuant to Section 9.2, which waiver must be signed by all of the Agents. To the extent practicable, Canaccord agrees to use commercially reasonable efforts to consult with the other Agents concerning any material matters which may arise hereunder before it binds the Agents with respect to any such matters.

24. Attornment

24.1 Each of the Company and each Agent hereby agrees:

(a) that any action or proceeding relating to this Agreement may (but need not) be brought in any court of competent jurisdiction in the Province of Ontario, and for that purpose now irrevocably and unconditionally attorns and submits to the jurisdiction of such Ontario court;

(b) that it irrevocably waives any right to, and will not, oppose any such Ontario action or proceeding on any jurisdictional basis, including forum non convenience; and

(c) it will not oppose the enforcement against it in any other jurisdiction of any judgment or order duly obtained from an Ontario court as contemplated by this Section 24.

25. Counterparts/Facsimile Signatures

This Agreement may be executed by any one or more of the parties to this Agreement in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument. The transmission by facsimile of a copy of the execution page hereof reflecting the execution of this Agreement by any party hereto shall be effective to evidence that party's intention to be bound by this Agreement and that party's agreement to the terms, provisions and conditions hereof, all without the necessity of having to produce an original copy of such execution page.

If the foregoing is in accordance with your understanding and is agreed to by you, please signify your acceptance by executing the enclosed copies of this letter where indicated below and returning the same to the Agents upon which this letter as so accepted shall constitute an agreement among us.

Yours truly,

CANACCORD CAPITAL CORPORATION

Per: _____
Authorized Signatory

BOLDER INVESTMENT PARTNERS, LTD.

Per: _____
Authorized Signatory

CANACCORD ADAMS INC.

Per: _____
Authorized Signatory

VUZIX CORPORATION

Per: _____
Authorized Signatory

Schedule "A"

1 Year Lock-Up Agreement

(See Attached)

Schedule B

6 Month Lock-Up Agreement

(See Attached)

Schedule C

Form of Opinion of Wildeboer Dellelce LLP

(See Attached)

Schedule D

Form of Opinion of Boylan, Brown, Code, Vigdor & Wilson LLP

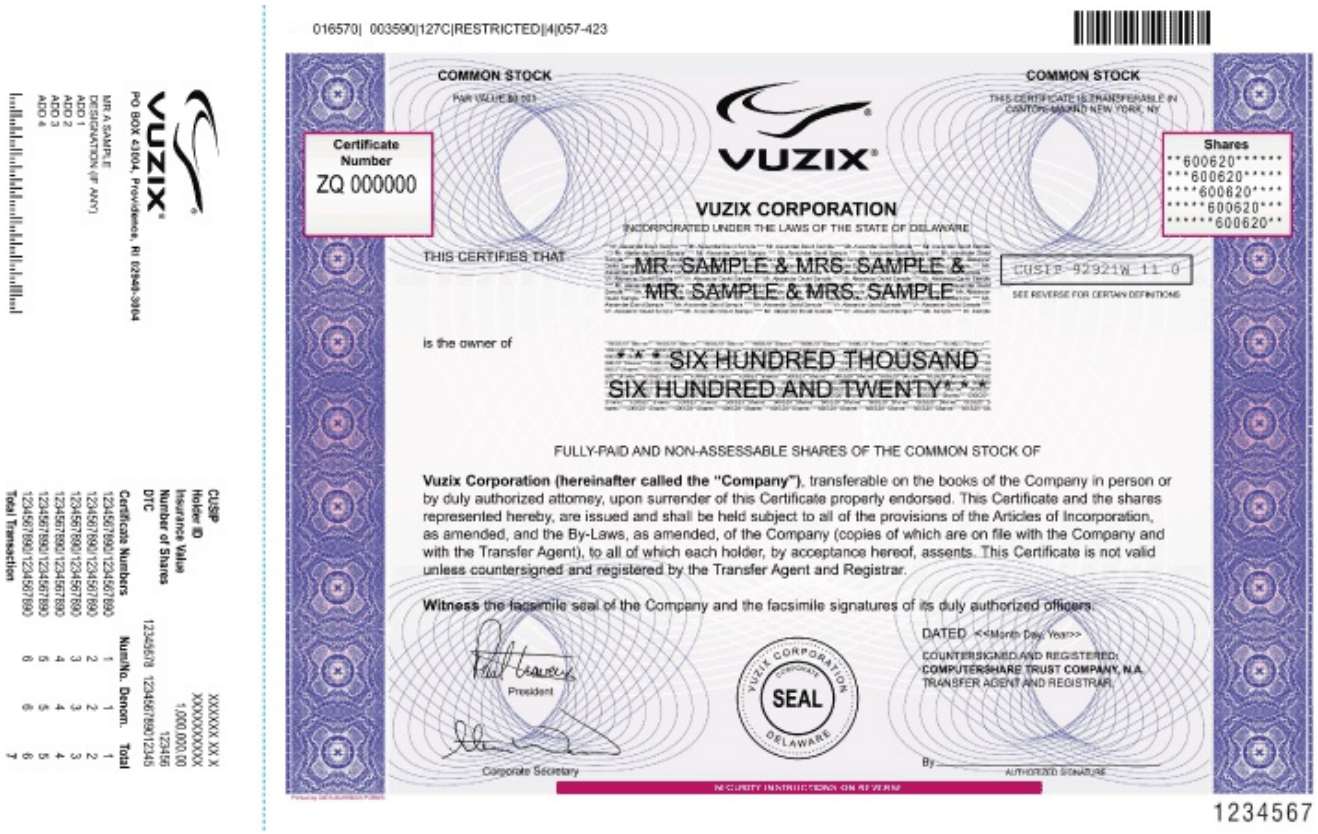
(See Attached)

Schedule E

Form of Opinion of Harter Secrest and Emery LLP

(See Attached)

Exhibit 4.1



VUZIX

PO BOX 43004, Providence, RI 02940-3004

MR A SAMPLE
DESIGNATION (IF ANY)
ADD 1
ADD 2
ADD 3
ADD 4

CUSIP XXXXXX XX X
Holder ID XXXXXXXXXX
Insurance Value 1,000,000.00
Number of Shares 123456
DTC 12345678 12345678901234

Certificate Numbers	Num/No.	Denom.	Total
12345678901234567890	1	1	1
12345678901234567890	2	2	2
12345678901234567890	3	3	3
12345678901234567890	4	4	4
12345678901234567890	5	5	5
12345678901234567890	6	6	6
Total Transaction			7

016570| 003590|127C|RESTRICTED|4|057-423

COMMON STOCK
PAR VALUE $0.001

COMMON STOCK
THIS CERTIFICATE IS TRANSFERABLE IN CANTON-MAXMD NEW YORK, NY

Certificate Number
ZQ 000000

Shares
600620****
****600620****
****600620****
*****600620***
******600620**

VUZIX

VUZIX CORPORATION
INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

THIS CERTIFIES THAT
MR. SAMPLE & MRS. SAMPLE &
MR. SAMPLE & MRS. SAMPLE

CUSIP 92921W 11 0
SEE REVERSE FOR CERTAIN DEFINITIONS

is the owner of

*** SIX HUNDRED THOUSAND
SIX HUNDRED AND TWENTY***

FULLY-PAID AND NON-ASSESSABLE SHARES OF THE COMMON STOCK OF

Vuzix Corporation (hereinafter called the "Company"), transferable on the books of the Company in person or by duly authorized attorney, upon surrender of this Certificate properly endorsed. This Certificate and the shares represented hereby, are issued and shall be held subject to all of the provisions of the Articles of Incorporation, as amended, and the By-Laws, as amended, of the Company (copies of which are on file with the Company and with the Transfer Agent), to all of which each holder, by acceptance hereof, assents. This Certificate is not valid unless countersigned and registered by the Transfer Agent and Registrar.

Witness the facsimile seal of the Company and the facsimile signatures of its duly authorized officers.

President

Corporate Secretary

VUZIX CORPORATION CORPORATE SEAL DELAWARE

DATED <<Month Day, Year>>

COUNTERSIGNED AND REGISTERED:
COMPUTERSHARE TRUST COMPANY, N.A.
TRANSFER AGENT AND REGISTRAR

By _____ AUTHORIZED SIGNATURE

SECURITY INSTRUCTIONS ON REVERSE

1234567

VUZIX CORPORATION

THE COMPANY WILL FURNISH WITHOUT CHARGE TO EACH SHAREHOLDER WHO SO REQUESTS, A SUMMARY OF THE POWERS, DESIGNATIONS, PREFERENCES AND RELATIVE, PARTICIPATING, OPTIONAL OR OTHER SPECIAL RIGHTS OF EACH CLASS OF STOCK OF THE COMPANY AND THE QUALIFICATIONS, LIMITATIONS OR RESTRICTIONS OF SUCH PREFERENCES AND RIGHTS, AND THE VARIATIONS IN RIGHTS, PREFERENCES AND LIMITATIONS DETERMINED FOR EACH SERIES, WHICH ARE FIXED BY THE ARTICLES OF INCORPORATION OF THE COMPANY, AS AMENDED, AND THE RESOLUTIONS OF THE BOARD OF DIRECTORS OF THE COMPANY, AND THE AUTHORITY OF THE BOARD OF DIRECTORS TO DETERMINE VARIATIONS FOR FUTURE SERIES. SUCH REQUEST MAY BE MADE TO THE OFFICE OF THE SECRETARY OF THE COMPANY OR TO THE TRANSFER AGENT. THE BOARD OF DIRECTORS MAY REQUIRE THE OWNER OF A LOST OR DESTROYED STOCK CERTIFICATE, OR HIS LEGAL REPRESENTATIVES, TO GIVE THE COMPANY A BOND TO INDEMNIFY IT AND ITS TRANSFER AGENTS AND REGISTRARS AGAINST ANY CLAIM THAT MAY BE MADE AGAINST THEM ON ACCOUNT OF THE ALLEGED LOSS OR DESTRUCTION OF ANY SUCH CERTIFICATE.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common	UNIF GIFT MIN ACT - ..... (Cust) Custodian ..... (Minor)	
TEN ENT - as tenants by the entireties	under Uniform Gifts to Minors Act..... (State)	
JT TEN - as joint tenants with right of survivorship	UNIF TRF MIN ACT - ..... (Cust) Custodian (until age .....)	
	..... (Minor) under Uniform Transfers to Minors Act ..... (State)	

Additional abbreviations may also be used though not in the above list.

For value received, _____ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

_____

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING POSTAL ZIP CODE, OF ASSIGNEE)

_____

_____

_____ Shares

of the common stock represented by the within Certificate, and do hereby irrevocably constitute and appoint

_____ Attorney

to transfer the said stock on the books of the within-named Corporation with full power of substitution in the premises.

Dated: _____ 20____

Signature: _____

Signature: _____

Notice: The signature to this assignment must correspond with the name as written upon the face of the certificate, in every particular, without alteration or enlargement, or any change whatever.

Signature(s) Guaranteed: Medallion Guarantee Stamp

THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (Banks, Stockbrokers, Savings and Loan Associations and Credit Unions) WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM, PURSUANT TO S.E.C. RULE 17Ad-15.

SECURITY INSTRUCTIONS

THIS IS WATERMARKED PAPER. DO NOT ACCEPT WITHOUT NOTING WATERMARK. HOLD TO LIGHT TO VERIFY WATERMARK.

153427

Exhibit 4.2

016570| 003590|127C|RESTRICTED||4|057-423

VUZIX

PO BOX 43004, Providence, RI 02940-3004

MR A SAMPLE
DESIGNATION (IF ANY)
ADD 1
ADD 2
ADD 3
ADD 4

CUSIP
Holder ID
Insurance Value
Number of Shares
DTC

Certificate Numbers	Num/No.	Denom.	Total
12345678901234567890	1	1	1
12345678901234567890	2	2	2
12345678901234567890	3	3	3
12345678901234567890	4	4	4
12345678901234567890	5	5	5
12345678901234567890	6	6	6
Total Transaction			7

XXXXXX XX X
XXXXXXXXXX
1,000,000.00
123456
123456678 123456789012345

WARRANT CERTIFICATE

PAR VALUE $.01

Certificate Number
ZQ 000000

WARRANT CERTIFICATE

THIS CERTIFICATE IS TRANSFERABLE IN CANTON, MASSACHUSETTS, NEW YORK, NY

Shares
600620****
****600620****
******600620**

VUZIX CORPORATION

THIS CERTIFICATE IS TO CERTIFY that for value received

MR. SAMPLE & MRS. SAMPLE &
MR. SAMPLE & MRS. SAMPLE

CUSIP 92921W 11 0

SEE REVERSE FOR CERTAIN DEFINITIONS

(herein referred to as the "Holder" or the "Warrantholder"), is the registered holder of

*** SIX HUNDRED THOUSAND SIX HUNDRED AND TWENTY***

DATED <<Month Day, Year>>

COUNTERSIGNED AND REGISTERED:
COMPUTERSHARE TRUST COMPANY, N.A.
TRANSFER AGENT AND REGISTRAR,

By _____
AUTHORIZED SIGNATURE

Corporate Secretary

President

SECURITY INSTRUCTIONS ON REVERSE

1234567

The right to acquire Common Shares may only be exercised by the Holder within the time set forth above by:

(1) duly completing and executing the Exercise Form on the reverse of this certificate; and

(2) surrendering this Certificate, together with cash or a certificate cheque, bank draft or money order in lawful money of Canada payable to or to the order of the Corporation at par in Toronto, Ontario in an amount equal to the aggregate Exercise Price of the Common Shares to be purchased hereunder, to the Warrant Agent at the principal transfer offices of the Warrant Agent in the city of Toronto, Ontario.

If any Common Shares issuable upon the exercise of Warrants require the maintenance of a current Registration Statement, with respect to such Shares under the Securities Act of 1933, as amended (the "U.S. Securities Act"), in no event shall such Common Shares be issued unless the Common Shares are registered under the U.S. Securities Act pursuant to an effective Registration Statement and the Corporation causes to be delivered to the holder a U.S. Prospectus; provided, however that, if the Registration Statement ceases to be effective, prior to the Expiry Time and for so long as the Registration Statement is not effective, subject to applicable law, a holder of any Warrant may, at its option: (i) exercise such Warrants, if the holder is not a U.S. Purchaser and the holder delivers a duly completed and executed Warrant Exercise Certification [in the form attached as Schedule 2 to the Indenture] certifying that the holder: (A)(1) is not in the United States; (2) is not a U.S. Person and is not exercising the Warrants for, or on behalf or benefit of, a U.S. Person or person in the United States; (3) did not execute or deliver the Warrant Exercise Form in the United States; (4) agrees not to engage in hedging transactions with regard to the Securities prior to the expiration of the one-year distribution compliance period set forth in Rule 903(b)(3) of Regulation S; (5) acknowledges that the Common Shares issuable upon exercise of the Warrants are "restricted securities" as defined in Rule 144 of the U.S. Securities Act and upon the issuance thereof, and until such time as the same is no longer required under the applicable requirements of the U.S. Securities Act or applicable U.S. state laws and regulations, the certificates representing the Common Shares will bear a restrictive legend; and (6) acknowledges that the Corporation shall refuse to register any transfer of the Securities not made in accordance with the provisions of Regulation S, pursuant to registration under the U.S. Securities Act, or pursuant to an available exemption from registration under the U.S. Securities Act; and (B) neither the Corporation nor the holder has engaged in any "directed selling efforts" (as defined in Regulation S) in the United States; or (ii) exercise such Warrants in a transaction that does not require registration under the U.S. Securities Act or any applicable U.S. state laws and regulations and the holder has (a) delivered a duly completed and executed Warrant Exercise Certification (in the form attached to the Indenture) certifying that the holder is exercising the Warrants pursuant to such exemptions and (b) furnished to the Corporation, prior to such exercise, an opinion of counsel of recognized standing in form and substance satisfactory to the Corporation to such effect. If no Registration Statement is effective at any time when any Warrant is exercised, the holder shall deliver a completed Warrant Exercise Certification (attached to the Indenture as Schedule 2) to the Warrant Agent and the Corporation.

Except where otherwise expressly provided, the Warrants represented by this Certificate shall be deemed to be surrendered only upon Personal delivery hereof or, if sent by mail or other means of transmission, upon actual receipt thereof by the Warrant Agent at the office referred to above.

Upon surrender of these Warrants, the Person or Persons in whose name or names the Common Shares issuable upon exercise of the Warrants are to be issued shall be deemed for all purposes (except as provided in the Warrant Indenture) to be the holder or holders of record of such Common Shares and the Corporation has covenanted that it will (subject to the provisions of the Warrant Indenture) cause a certificate or certificates representing the Common Shares to be delivered or mailed to the Person or Persons at the address or addresses specified in the Exercise Form within three Business Days.

In the event of any subdivision or consolidation of the Common Shares or any reclassification, capital reorganization, amalgamation or merger of the Corporation, the holders of Warrants shall, upon exercise of the Warrants following the occurrence of any of those events, be entitled to receive the same number and kind of securities that they would have been entitled to receive had they exercised their Warrants immediately prior to the occurrence of those events, provided that no fractional securities will be issued. The Warrantholder should refer to the Warrant Indenture which provides for adjustments in certain other events.

EXERCISE FORM

TO: Vuzix Corporation
c/o Computershare Trust Company of Canada
100 University Avenue, 8th Floor
Toronto, Ontario
M5J 2Y1

Attention: Manager, Corporate Trust
Fax: 416-361-0470

The undersigned Holder of the Warrants evidenced by the within Certificate hereby irrevocably subscribes for, and exercises his right to be issued, the number of Common Shares set forth below, such Common Shares being issuable upon exercise of such Warrants pursuant to the terms specified in the said Warrants and the Warrant Indenture.

The undersigned hereby irrevocably directs that the Common Shares be issued and delivered as follows:

Name(s) in full	Address(es) (include Postal Code)	Number(s) of Common Shares
	TOTAL	

(Please print full name in which certificate(s) are to be issued. If any of the Common Shares are to be issued to a Person or Persons other than the Warrantholder, the Warrantholder must pay to the Warrant Agent all requisite taxes or other government charges.)

Dated this _____ day of _____, _____.

_____	_____	_____
Signature Guarantee (see instruction 2)	Signature of Registered Holder	Name of Registered Holder

☐ Please check box if certificates representing these Common Shares are to be delivered at the office of the Warrant Agent where this Warrant Certificate is surrendered, failing which the certificates will be mailed to the address(es) set forth above.

Instructions:

The Holder may exercise its right to receive Common Shares by completing this form and surrendering this form and the Warrant Certificate representing the Warrants being exercised to the Warrant Agent at its principal transfer offices in Toronto, Ontario. Certificates for Common Shares will be delivered or mailed within five Business Days after the exercise of the Warrants.

If the Exercise Form indicates that Common Shares are to be issued to a Person or Persons other than the registered holder of the Certificate, the signature on this Exercise Form must be guaranteed by a Schedule 1 major chartered bank company or a member of an acceptable medallion guarantee program. The Guarantor must affix a stamp bearing the actual words "Signature Guaranteed". Signature guarantees are not accepted from Treasury Branches or credit unions unless they are members of the Stamp Medallion Program. In the United States, signature guarantees must be done by members of the "Medallion Signature Guarantee Program" only.

If the Exercise Form is signed by an agent, executor, administrator, curator, guardian, attorney, officer of a corporation or any Person acting in a fiduciary or representative capacity, the certificate must be accompanied by evidence of authority to sign satisfactory to the Warrant Agent and the Corporation.

If the Holder exercises its right to receive Common Shares prior to the date which is four months plus one day from the issuance date of the Warrants, the Common Shares may be subject to a hold period and may be issued with a legend reflecting such hold period.

TRANSFER FORM

Any transfer of Warrants will require compliance with applicable securities legislation. Transferors and transferees are urged to contact legal counsel before effecting any such transfer.

FOR VALUE RECEIVED, the undersigned hereby sells, transfers and assigns to _____, _____ Warrants represented by this Warrant Certificate and does hereby irrevocably appoint _____ as its attorney with full power of substitution to transfer the said Warrants on the appropriate register of the Warrant Agent.

DATED this _____ day of_____, _____.

_____	_____	_____
Signature Guarantee	Signature of Registered Holder	Name of Registered Holder

Instructions:

1. Signature of the Warrantholder must be the signature of the registered holder appearing on the face of this Warrant Certificate.
2. If this Transfer Form is signed by an agent, executor, administrator, curator, guardian, attorney, officer of a corporation or any Person acting in a fiduciary or representative capacity, the Certificate must be accompanied by evidence of authority to sign satisfactory to the Warrant Agent and the Corporation, acting reasonably.
3. The signature on this Transfer Form must be guaranteed by a Schedule 1 major chartered bank/trust company or a member of an acceptable medallion guarantee program. The guarantor must affix a stamp bearing the actual words "Signature Guaranteed". Signature guarantees are not accepted from Treasury Branches or credit unions unless they are members of the Stamp Medallion Program. In the United States, signature guarantees must be done by members of the "Medallion Signature Guarantee Program" only.
4. Warrants shall only be transferable in accordance with applicable laws and the applicable provisions of the Warrant Indenture.

SCHEDULE 2
WARRANT EXERCISE CERTIFICATION
(TO BE COMPLETED ONLY IF A REGISTRATION STATEMENT IS NOT EFFECTIVE)

To: VUZIX CORPORATION

And To: COMPUTERSHARE TRUST COMPANY OF CANADA

The undersigned holder of the within Warrant Certificate, pursuant to the Warrant Indenture mentioned therein, hereby exercises certain Warrants (the "Exercised Warrants") evidenced thereby and hereby subscribes for a number of Common Shares of VUZIX CORPORATION equal to such number of Common Shares or number or amount of other securities or property, or combination thereof, to which such exercise entitles him under the provisions of the Warrant Indenture at an aggregate price equal to the product of the Exercise Price and the number of Exercised Warrants, and on the terms specified in such Warrant Certificate and the Warrant Indenture, and in payment therefor, delivers herewith a bank draft, certified cheque or money order payable to VUZIX CORPORATION. Capitalized terms not defined herein shall have the definitions set forth in the Warrant Indenture.

The undersigned represents that it (A) has had access to such current public information concerning VUZIX CORPORATION as it considered necessary in connection with its investment decision and (B) understands that the securities issuable upon exercise hereof have not been registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act").

The undersigned represents and warrants that it: **[check one only]**

☐ A. is not a U.S. Purchaser and it (1) is not in the United States; (2) is not a U.S. Person and is not exercising the Warrants for, or on behalf or benefit of, a U.S. Person or person in the United States; (3) did not execute or deliver the Warrant Exercise Form in the United States; (4) agrees not to engage in hedging transactions with regard to the Securities prior to the expiration of the one-year distribution compliance period set forth in Rule 903(b)(3) of Regulation S; (5) acknowledges that the Common Shares issuable upon exercise of the Warrants are "restricted securities" as defined in Rule 144 of the U.S. Securities Act and upon the issuance thereof, and until such time as the same is no longer required under the applicable requirements of the U.S. Securities Act or applicable U.S. state laws and regulations, the certificates representing the Common Shares will bear a restrictive legend; and (6) acknowledges that the Corporation shall refuse to register any transfer of the Securities not made in accordance with the provisions of Regulation S, pursuant to registration under the U.S. Securities Act, or pursuant to an available exemption from registration under the U.S. Securities Act; and (B) it holder has not engaged in any "directed selling efforts" (as defined in Regulation S) in the United States.

☐ B. the undersigned is delivering a written opinion of U.S. Counsel or a written confirmation from the Corporation to the effect that the Warrants and the Common Shares to be delivered upon exercise hereof have been registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or are exempt from registration thereunder.

The undersigned holder understands that the certificate representing the Corporation's Common Shares issued upon exercise of this Warrant will bear a legend restricting the transfer without registration under the U.S. Securities Act and applicable state securities laws substantially the form set forth in Section 3.01(3) of the Warrant Indenture.

Name / Nome: _____
Please print or type name and address (including postal code)

Address / Adresse: _____

Number of Warrants being Exercised: _____

DATED this _____ day of_____, _____.

Signature guaranteed by:

_____	_____	_____
Name of registered holder (please print) –	Signature of or on behalf of registered holder	Office, Title or other Authorization (if holder not an Individual)

SECURITY INSTRUCTIONS

THIS IS WATERMARKED PAPER. DO NOT ACCEPT WITHOUT NOTING WATERMARK. HOLD TO LIGHT TO VERIFY WATERMARK.

1534567

Exhibit 4.3

VUZIX CORPORATION

- and -

COMPUTERSHARE TRUST COMPANY OF CANADA

WARRANT INDENTURE

Providing for the Issue
of • Unit Warrants and
• Compensation Unit Warrants of Vuzix Corporation

•, 2009

THIS WARRANT INDENTURE is made as of the • day of •, 2009.

BETWEEN: **VUZIX CORPORATION**, a corporation existing under the laws of the State of Delaware and having its head office in the City of Rochester, New York

(the "**Corporation**")

- - and -

AND: **COMPUTERSHARE TRUST COMPANY OF CANADA,** a trust company incorporated under the laws of Canada and having a place of business in the City of Toronto, Ontario

(the "**Warrant Agent**")

WHEREAS Canaccord Capital Corporation, Bolder Investment Partners, Ltd. and Canaccord Adams Inc. (collectively, the "**Agents**") are acting as agents in connection with the issuance and sale by the Corporation (the "**Offering**") of up to • units of the Corporation (individually a "**Unit**" and collectively, the "**Units**");

AND WHEREAS each Unit, issuable at a price of CDN$• per Unit, consists of one (1) Common Share (as hereinafter defined) and one half (½) of one (1) Common Share purchase warrant (a "**Unit Warrant**");

AND WHEREAS the Agents shall be issued that number of compensation options (the "**Compensation Options**") equal to 12.5% of the number of Units sold pursuant to the Offering;

AND WHEREAS each Compensation Option shall entitle the holder thereof to acquire one (1) Unit (a "**Compensation Unit**") at a price of CDN$• per Compensation Unit at any time prior to 5:00 pm (Toronto time) on the date that is one (1) year following the Closing Date (as hereinafter defined);

AND WHEREAS each Compensation Unit shall consist of one Common Share and one half (½) of one (1) Common Share purchase warrant (a "**Compensation Unit Warrant**");

AND WHEREAS each Warrant shall entitle the holder thereof to purchase one (1) Common Share at a price of CDN$• **[NTD: 150% of price of Units]** per share at any time prior to the Warrant Expiry Time (as hereinafter defined) subject to adjustment in the circumstances herein provided;

AND WHEREAS up to an aggregate of • Unit Warrants will be issued in connection with the Offering and up to • Compensation Unit Warrants, entitling the holders thereof to purchase, in the aggregate, up to • Common Shares, subject to adjustment in the circumstances herein provided;

AND WHEREAS the Corporation is duly authorized to create and issue the Unit Warrants and the Compensation Unit Warrants to be issued as herein provided;

AND WHEREAS the foregoing recitals are made as representations and statements of fact by the Corporation and not by the Warrant Agent; and

AND WHEREAS the Warrant Agent has agreed to enter into this Indenture and to hold all rights, interests and benefits contained herein for and on behalf of the Persons who become Warrantholders (as hereinafter defined);

NOW THEREFORE THIS INDENTURE WITNESSETH that for good and valuable consideration mutually given and received, the receipt and sufficiency of which are hereby acknowledged, it is hereby agreed and declared as follows:

ARTICLE ONE — INTERPRETATION

1.01 Definitions

In addition to the terms defined in the above recitals or elsewhere in this Indenture, unless there is something in the subject matter or context inconsistent therewith, the following phrases and words used in this Indenture and the Warrant Certificate shall have the respective meanings indicated below:

"Applicable Legislation" means the provisions of the statutes of the Canada and its provinces and the regulations under those statutes, if any, relating to trust indentures or the rights, duties or obligations of corporations and warrant agents under trust indentures as are from time to time in force and applicable to this Indenture;

"Auditors" of the Corporation means the independent registered public accounting firm duly appointed as auditor or auditors of the Corporation for the time being;

"Business Days" means a day that is not a Saturday, Sunday, other statutory holiday in Toronto, Ontario, Rochester, New York or a day on which the Warrant Agent is not open for business;

"Closing Date" means •, 2009;

"Common Shares" means the shares of common stock in the capital of the Corporation, US$0.001 par value, as constituted on the date hereof, provided that in the event of any adjustment pursuant to Article Three, Common Shares will thereafter mean the common shares or other securities or property resulting from such adjustment;

"Convertible Security" means a security of the Corporation (other than the Warrants), convertible into or exercisable or exchangeable for or otherwise carrying the right to acquire Common Shares;

"Corporation" means Vuzix Corporation, a corporation incorporated under the laws of Delaware;

"Counsel" means a barrister, solicitor or lawyer or firm of barristers, solicitors or lawyers (who may be counsel to the Corporation) acceptable to the Warrant Agent;

"Current Market Price" of the Common Shares at any date means the price per Common Share equal to the weighted average price at which the Common Shares have traded on the TSX-V, or, if the Common Shares are not then listed on the TSX-V, on any stock exchange as may be selected by the Directors for such purpose or, if the Common Shares are not then listed on any stock exchange, in the over-the-counter market, during the period of twenty (20) consecutive trading days ending not more than five (5) Business Days before such date; provided that the weighted average price shall be determined by dividing the aggregate sale price of all such Common Shares sold on the said exchange or market, as the case may be, during the said twenty (20) consecutive trading days by the total number of such Common Shares so sold; and provided further that if the Common Shares are not then listed on one of the said exchanges or traded in the over-the-counter market, then the Current Market Price shall be determined by the Directors, acting reasonably;

"Directors" means the board of directors of the Corporation as constituted as of the applicable date and reference without more to "action by the Directors" shall mean action by the Directors as a board or by any authorized committee thereof;

"Dividends in the Ordinary Course" means such dividends whether (payable in cash or securities, property or assets of equivalent value) paid on the Common Shares in any fiscal year of the Corporation to the extent that such dividends in the aggregate do not exceed in amount or value the greater of:

(a) 10% of the aggregate amount or value of the dividends paid by the Corporation on its Common Shares in the 12 consecutive months ended immediately prior to the first day of such fiscal year;

(b) 25% of the consolidated net earnings of the Corporation before extraordinary items and after dividends paid on any and all other shares of the Corporation for the period of 12 consecutive months ended immediately prior to the first day of such fiscal year (such consolidated net earnings to be shown in the audited financial statements of the Corporation for such 12 month period, or if there are no audited financial statements in respect of such period, computed in accordance with generally accepted accounting principles consistent with those applied in the preparation of the most recently completed audited consolidated financial statements of the Corporation); and

(c) 10% of the Shareholder's Equity,

"Exercise Price" means CDN$**• [NTD: 150% of price of Units]** in lawful money of Canada per Warrant, subject to adjustment in accordance with the terms of this Indenture;

"Extraordinary Resolution" means an Extraordinary Resolution of Warrantholders as defined in section 5.11 and includes a written instrument signed by Warrantholders pursuant to the provisions of section 5.11;

"Person" means an individual, a corporation, a partnership, a government or any department or agency thereof, a joint venture, a trust, an estate, an unincorporated organization and the heirs, executors, administrators or other legal representatives of an individual; and pronouns and other words importing Persons have a similarly extended meaning;

"Price Adjustment Factor", at any time, means that number, as may be adjusted by Article Three hereof, which when multiplied by the Exercise Price gives the Subscription Price, and that number, as at the date hereof, is equal to one;

Registration Statement" means the Corporation's registration statement on Form S-1 (SEC File No.: 333-160417) filed with the SEC under the U.S. Securities Act, registering the Common Shares issuable upon exercise of the Unit Warrants;

"**Regulation D**" means Regulation D under the U.S. Securities Act;

"**Regulation S**" means Regulation S under the U.S. Securities Act;

"**SEC**" means the United States Securities and Exchange Commission;

"Shareholder's Equity" means the stockholders equity reported on the audited financial statements of the Corporation for the most recently ended fiscal year;

"Subscription Price" at any time means the subscription price payable for one Common Share upon the exercise at that time of any Warrant and calculated as the price that is the product of the Exercise Price and the Price Adjustment Factor as at that time;

"This Indenture", **"hereto"**, **"herein"**, **"hereby"**, **"hereunder"**, **"hereof"** and similar expressions refer to this instrument and not to any particular Article, section, paragraph, clause, subdivision or other portion hereof, and include any and every instrument supplemental or ancillary hereto or in implementation hereof;

"Time of Exercise" means the time that surrender of the Warrant Certificate, the completion of the Warrant exercise form and payment of the Subscription Price is effected by a Warrantholder according to the provisions of section 3.03 hereof;

"Transfer Agent" means the transfer agent for the time being of the Common Shares;

"TSX-V" means the TSX Venture Exchange;

"United States" means the United States as that term is defined in Rule 902(l) of Regulation S;

"U.S. Person" means a U.S. Person as that term is defined in Rule 902(k) Regulation S;

"U.S. Securities Act" means the *United States Securities Act of 1933*, as amended;

"**U.S. Prospectus**" means a prospectus meeting the requirements of Section 10(a) of the U.S. Securities Act;

"**U.S. Purchaser**" means (i) a person in the United States, (ii) a U.S. Person or person purchasing on behalf, or for the benefit or account, of any U.S. Person or person in the United States, (iii) a person who was in the United States at the time the order was made to exercise Warrants or (iv) a person who executed or delivered a Warrant Exercise Form while in the United States;

"Voting Shares" means shares of any class of a corporation carrying voting rights under all circumstances for the election of the directors of the corporation but not including shares carrying voting rights only by reason of the happening of a contingency, whether or not such contingency shall have happened;

"Warrant" means a Unit Warrant or a Compensation Unit Warrant issued and certified hereunder and for the time being outstanding entitling the holder thereof at any time prior to the Warrant Expiry Time to purchase one Common Share upon payment of the Subscription Price therefor;

"Warrant Agent" means Computershare Trust Company of Canada or its successor or successors or permitted assigns for the time being the duties and obligations hereby created;

"Warrant Certificate" means a certificate substantially in the form specified in Schedule 1 hereto, or such other form as may be approved by the Corporation, the Agents and the Warrant Agent;

"**Warrant Exercise Certification**" means the warrant exercise certification attached hereto as Schedule 2;

"**Warrant Exercise Form**" means the warrant exercise form attached to the Warrant Certificates;

"Warrant Expiry Time" means 5:00 p.m. (Toronto time) on •, 2012; provided that if at any time the Current Market Price of the Common Shares exceeds CDN$ • **[NTD: 250% of initial offering price of the Units],** the Corporation 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;

"Warrantholder", **"holder"** or **"holder of Warrants"** means with respect to the Warrants, a Person entered on a register to be maintained under section 2.10 as the registered holder of a Warrant for the time being;

"Warrantholders' Request" means an instrument signed in one or more counterparts by Warrantholders holding in the aggregate not less than 25% of the then outstanding Warrants which requests the Warrant Agent to take some action or proceeding specified therein; and

"Written order of the Corporation", "written request of the Corporation", "written consent of the Corporation", "certificate of the Corporation" and any other document required to be signed by the Corporation, mean, respectively, a written order, request, consent and certificate or other document signed in the name of the Corporation by any officer of the Corporation, and may consist of one or more instruments so executed.

1.02 Meaning of "outstanding" for Certain Purposes

Every Warrant Certificate certified and delivered by the Warrant Agent hereunder shall be deemed to be outstanding until the Warrant Expiry Time, or until it shall be surrendered to the Warrant Agent upon the exercise thereof pursuant to Article Three, provided however that:

(a) a Warrant which has been partially exercised shall be deemed to be outstanding only to the extent of the unexercised part of the Warrant;

(b) where a Warrant Certificate has been issued in substitution for a Warrant Certificate which has been lost, stolen or destroyed, only one of them shall be counted for the purpose of determining the Warrants then outstanding; and

(c) for the purpose of any provision of this Indenture entitling holders of outstanding Warrants to vote, sign consents, requests or other instruments or take any other action under this Indenture, Warrants owned legally or equitably by the Corporation thereof shall be disregarded, except that:

  (i) for the purpose of determining whether the Warrant Agent shall be protected in relying on any such vote, consent, request or other instrument or other action, only the Warrants of which the Warrant Agent has notice that they are so owned shall be so disregarded; and

  (ii) Warrants so owned which have been pledged in good faith other than to the Corporation shall not be so disregarded if the pledgee shall establish to the satisfaction of the Warrant Agent the pledgee's right to vote the Warrants in his discretion free from the control of the Corporation, as the case may be, and the terms of the pledge thereof as to the right to vote shall govern.

1.03 Day not a Business Day

If the day on or before which any action (other than the exercise of a Warrant) would otherwise be required to be taken hereunder is not a Business Day, that action will be required to be taken on or before the requisite time on the next succeeding day that is a Business Day.

1.04 Words Importing the Singular

Words importing the singular include the plural and vice versa and words importing a particular gender include all genders.

1.05 Time of the Essence

Time shall be of the essence in this Indenture and the Warrant Certificates.

1.06 Interpretation not Affected by Headings, etc.

The division of this Indenture into Articles and sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation hereof.

1.07 Language

The parties hereto confirm their express wish that this Indenture and all documents and agreements directly or indirectly relating thereto be drawn up in the English language.

Les parties reconnaissent leur volonté expresse que la présente convention de bons de souscription ainsi que tous les documents et contrats s'y rattachant directement ou indirectement soient rédigés en anglais.

1.08 Benefit of Applicable Legislation

(1) If and to the extent that any provision of this Indenture limits, qualifies or conflicts with a mandatory requirement of Applicable Legislation, the mandatory requirement will prevail.

(2) The Corporation and the Warrant Agent each will at all times in relation to this Indenture and any action to be taken hereunder observe and comply with and be entitled to the benefits of Applicable Legislation.

ARTICLE TWO — ISSUE OF WARRANTS

2.01 Creation and Issue of Warrants

(1) A total of up to • Unit Warrants and • Compensation Unit Warrants (each subject to adjustment) are hereby authorized to be created and issued by the Corporation.

(2) Subject to adjustment as provided in this Indenture, each Warrant will entitle the holder thereof to purchase one Common Share at any time from and after the date of issue of the Warrant to and including the Warrant Expiry Time at the Subscription Price.

2.02 Form and Terms of Warrant Certificates

(1) The Warrant Certificates representing the Warrants shall be substantially in the form set out in Schedule 1 hereto, with such additions, variations or omissions as may be permitted by the provisions of this Indenture or may from time to time be agreed upon between the Corporation and the Warrant Agent and shall be numbered in the manner as the Corporation, with the approval of the Warrant Agent, may prescribe. All Warrant Certificates shall, save and except as to the denominations thereof, be of like tenor and effect. Warrant Certificates may be engraved, lithographed, printed or partly in one form and partly in another, as the Corporation and the Warrant Agent, acting reasonably, may determine.

(2) Each Warrant Certificate authorized to be issued hereunder shall entitle the holder upon exercise, surrender and payment of the Exercise Price in accordance with the provisions of Article Three (Exercise of Warrants), to be issued that number of Common Shares subscribed for in accordance with the exercise form of the Warrant Certificate. With the exception of the Compensation Unit Warrants, the Warrant Certificates will be dated as of the date of this Indenture (regardless of the actual dates of their issue).

(3) The Warrant Certificate(s) representing an aggregate of **• [NTD: 2.5% of the total number of Units sold in the Offering]** Compensation Unit Warrants and the Common Shares issuable upon exercise thereof, in each case if issued before the date which is four (4) months and one (1) day after the Closing Date, shall bear the following legends:

"UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE • , 2010."**[NTD: Date that is four months and one day from Closing Date to be inserted.]**

"WITHOUT PRIOR WRITTEN APPROVAL OF THE TSX VENTURE EXCHANGE AND COMPLIANCE WITH ALL APPLICABLE SECURITIES LEGISLATION, THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, TRANSFERRED, HYPOTHECATED BY THIS CERTIFICATE MAY NOT BE SOLD, TRANSFERRED, HYPOTHECATED OR OTHERWISE TRADED ON OR THROUGH THE FACILITIES OF THE TSX VENTURE EXCHANGE OR OTHERWISE IN CANADA OR TO THE BENEFIT OF A CANADIAN RESIDENT BEFORE • , 2010." ."**[NTD: Date that is four months and one day from Closing Date to be inserted.]**

2.03 Purchase of Warrants by the Corporation

(1) The Corporation, when not in default under this Indenture and in accordance with all applicable securities laws, may purchase in the market, by private contract, by tender or otherwise all or any portion of the Warrants on such terms as the Corporation may determine. All Warrants so purchased shall forthwith be delivered to the Warrant Agent and cancelled by it and no Warrants shall be issued in substitution therefor.

(2) If, upon an invitation for tenders, more Warrants are tendered at the same lowest price than the Corporation is prepared to accept at that price, the Warrants to be purchased by the Corporation shall be selected by the Warrant Agent pro rata in accordance with the number of Warrants tendered.

2.04 Issue of Warrant Certificates

Warrant Certificates in the definitive form authorized in section 2.02 to be issued and delivered from time to time under this Indenture shall be executed by the Corporation and certified by the Warrant Agent to or upon the written order of the Corporation, without the Warrant Agent receiving any consideration therefore.

2.05 Warrantholder not a Shareholder

Nothing in this Indenture or in the ownership of a Warrant evidenced by a Warrant Certificate, or otherwise, will be construed as conferring on a Warrantholder any right or interest whatsoever as a shareholder of the Corporation, including but not limited to any right to vote at, to receive notice of, or to attend, any meeting of shareholders or any other proceeding of the Corporation or any right to receive any dividend or other distribution.

2.06 Execution of Warrant Certificates

Warrant Certificates shall be signed by any one officer of the Corporation. The signature of such officer may be mechanically reproduced in facsimile and Warrant Certificates bearing facsimile signatures shall be binding upon the Corporation as if they had been manually signed by such officer. Notwithstanding that any of the Persons whose manual or facsimile signature appears on any Warrant Certificates as one of the officers may no longer, prior to the certification and delivery of the Warrant Certificate, hold the official capacity in which he signed, any Warrant Certificate signed as aforesaid shall be valid and binding upon the Corporation when the Warrant Certificate has been certified by the Warrant Agent in accordance with section 2.07, and the registered holder thereof shall be entitled to the benefits of this Indenture.

2.07 Certification by Warrant Agent

(1) No Warrant Certificate shall be issued, or if issued, shall be valid or entitle the holder to the benefit hereof until it has been certified by the Warrant Agent by being countersigned by or on behalf of the Warrant Agent and the countersignature upon any Warrant Certificate shall be conclusive evidence as against the Corporation that the Warrant Certificate so countersigned has been duly issued hereunder and is a valid obligation of the Corporation, and that the holder is entitled to the benefit hereof.

(2) The countersigning by or on behalf of the Warrant Agent on any Warrant Certificate issued hereunder shall not be construed as a representation or warranty by the Warrant Agent as to the validity of this Indenture or of the Warrants and the Warrant Agent shall in no respect be liable or answerable for the use made of any Warrant Certificate or of the consideration therefore, except as otherwise specified herein. The countersignature of or on behalf of the Warrant Agent shall, however, be a representation and warranty by the Warrant Agent that the Warrant Certificate has been duly countersigned by or on behalf of the Warrant Agent pursuant to the provisions of this Indenture.

2.08 Exchange of Warrant Certificates

The holder of a Warrant Certificate may at any time after the date of issue thereof and prior to the Warrant Expiry Time, upon surrender thereof to the Warrant Agent at its principal transfer offices in Toronto, Ontario, exchange the same for Warrant Certificates entitling the holder to subscribe for, in the aggregate, the same number of Common Shares for which the holder may subscribe under the surrendered Warrant Certificate. On each exchange the Warrant Agent may request a reasonable charge to reimburse the Warrant Agent for any tax or other governmental charge required to be paid.

2.09 Issue in Substitution for Lost Certificates

(1) If a Warrant Certificate becomes mutilated or is lost, destroyed or stolen, upon the instructions of the holder thereof, the Corporation, subject to subsection (2), will issue and thereupon the Warrant Agent will countersign or certify and deliver a new certificate of like tenor as the one mutilated, lost, destroyed or stolen in exchange for and in place of and on surrender and cancellation of the mutilated certificate or in lieu of and in substitution for the lost, destroyed or stolen certificate, and the substituted Warrant Certificate shall entitle the holder thereof to the same rights and benefits as the certificate being replaced.

(2) The applicant for the issue of a new certificate pursuant to this section will bear the cost of the issue thereof and in case of loss, destruction or theft will, as a condition precedent to the issue thereof:

(a) furnish to the Corporation and to the Warrant Agent such evidence of ownership and of the loss, destruction or theft of the certificate to be replaced as is satisfactory to the Corporation and to the Warrant Agent, or the Transfer Agent acting reasonably,

(b) if so required, furnish a bond in amount and form satisfactory to the Corporation and to the Warrant Agent, acting reasonably,

(c) agree to indemnify and hold harmless the Corporation, the Warrant Agent and the Transfer Agent against any damages they may incur as a result of acting upon the instructions of the applicant, and

(d) pay the reasonable charges of the Corporation and the Warrant Agent in connection therewith.

2.10 Registration and Transfer of Warrants

(1) The Corporation shall cause to be kept by and at the principal offices of the Warrant Agent in Toronto, Ontario and by the Warrant Agent or such other registrar as the Corporation, with the approval of the Warrant Agent, may appoint, at such other place or places, if any, as the Corporation may designate with the approval of the Warrant Agent, registers in which shall be entered in alphabetical order the names and addresses (including street and number, if any) of the holders of Warrants and particulars of the Warrants held by them respectively. Such registration shall be noted on the Warrant Certificates by the Warrant Agent or such other registrar as the Corporation and the Warrant Agent may appoint.

(2) No transfer of a Warrant shall be valid unless made on any one of the registers upon surrender of the Warrant Certificate to the Warrant Agent or other registrar accompanied by a written instrument of transfer in form satisfactory to the Warrant Agent or other registrar executed by the registered holder or his executors, administrator or other legal representatives or his or their attorney duly appointed by an instrument in writing in form and execution satisfactory to the Warrant Agent or other registrar and upon compliance with such reasonable requirements as the Warrant Agent or other registrar may prescribe, which, in the case of a transfer of a Compensation Unit Warrant made prior to the expiry

of the applicable hold period, may include an opinion of counsel in the form satisfactory to the Warrant Agent, nor, except in the case where a new Warrant Certificate is issued upon a transfer, unless the transfer shall have been noted on the Warrant Certificate by the Warrant Agent or other registrar.

(3) The registered holder of Warrants may at any time and from time to time have the registration of the Warrants transferred from the register in which the registration thereof appears to another authorized register upon compliance with such reasonable requirements as the Warrant Agent or other registrar may prescribe.

(4) The Corporation shall also cause to be kept by and at the principal offices of the Warrant Agent in Toronto, Ontario or at such other place or places, if any, as the Corporation and the Warrant Agent may designate, registers in which all transfers of Warrants and the date and other particulars of each transfer shall be set out.

(5) The transferee of Warrants shall, after the Warrant Certificate and the appropriate form of transfer are lodged with the Warrant Agent or other registrar as the Corporation and the Warrant Agent may appoint and upon compliance with all other conditions in that behalf required by this Indenture or by law, be entitled to be entered on one of the registers as the owner of the Warrants free from all equities or right of set-off or counterclaim between the Corporation and his transferor or any previous holder of the Warrants, save in respect of equities of which the Corporation is required to take notice by statute or by order of a court of competent jurisdiction. The receipt by the registered holder of Warrants of the Common Shares purchasable pursuant thereto will be a good discharge to the Corporation and the Warrant Agent therefor and neither the Corporation nor the Warrant Agent will be bound to inquire into the title of the holder except as aforesaid.

Notwithstanding the foregoing, Warrants represented by Warrant Certificates bearing the legends set forth in the form of Warrant Certificate attached as Schedule "1" hereto and set out in section 2.02 hereof may not be transferred unless the conditions set out in such legends are met and the Warrant Agent and the Corporation shall have received evidence, if any, as the Corporation shall reasonably require to assure the transfer complies with applicable securities laws and the restrictions on transfer set out therein.

(6) Subject to applicable law, neither the Corporation nor the Warrant Agent nor any registrar shall be bound to take notice of or see to the execution of any trust, whether express, implied or constructive, in respect of any Unit Warrant, and may transfer the same on the direction of the Person registered as the holder thereof, whether named as Warrant Agent or otherwise, as though that Person were the beneficial owner thereof.

(7) The registers hereinbefore referred to shall at all reasonable times be open for inspection by the Corporation, the Warrant Agent or any Warrantholder. The Warrant Agent and every registrar as the Corporation and the Warrant Agent may appoint shall from time to time when requested so to do by the Corporation, by the Warrant Agent or by a Warrantholder furnish the Corporation, the Warrant Agent or upon payment by the Warrantholder of a reasonable fee, the Warrantholder, as the case may be, with a list of names and addresses of holders of Warrants entered on the registers kept by them and showing the number of Warrants held by each such holder.

(8) Any Warrant Certificate representing the Warrants issued to a transferee in a transfer contemplated by this section 2.10 shall bear the appropriate legend(s) set forth in subsection**[s]** 2.02 **[and 3.09(2)]**, as required by the transfer form attached to the Warrant Certificate representing the Warrants.

2.11 Enforcement of Rights of Warrantholders

(1) All or any of the rights conferred upon a Warrantholder by the terms of a Warrant or of this Indenture may be enforced by the holder by appropriate legal proceedings but without prejudice to the right that is hereby conferred upon the Warrant Agent to proceed in its own name to enforce each and all of the provisions herein contained for the benefit of the holders of the Warrants from time to time outstanding.

(2) No recourse under or upon any obligation, covenant or agreement contained in this Indenture or in the Warrant Certificates shall be had against any shareholder, officer or director, past, present or future, of the Corporation or of any of its subsidiaries or of any successor corporation, either directly or through the Corporation, or the Subsidiaries or otherwise, by any legal or equitable proceeding by virtue of any statute or otherwise.

(3) This Indenture and the Warrants issued hereunder are solely corporate obligations and no personal liability whatsoever shall attach to or be incurred by the shareholders, officers or Directors, past, present or future, of the Corporation, or of any of its subsidiaries, or any successor corporation, under or by reason of the obligations, covenants or agreements contained in this Indenture or in the Warrant Certificates.

2.12 Warrants to Rank Pari Passu

Except as otherwise provided herein, all Warrants will rank *pari passu*, whatever may be the actual dates of issue thereof.

2.13 Notice to Warrantholders

(1) Unless herein otherwise expressly provided, a notice to be given hereunder to Warrantholders will be deemed to be validly given if the notice is delivered, or if sent by first class insured, postage pre-paid or by telecopier with originals to follow by pre-paid first class mail at their respective addresses appearing on any of the registers above mentioned; and if in the case of joint holders of any Warrant more than one address appears on the register in respect of the joint holding, the notice shall be addressed or delivered, as the case may be, only to the first address so appearing. Any notice so given by mail or so delivered by hand shall be deemed to have been given on the fifth Business Day after it has been mailed or on the day upon which it has been delivered, or if transmitted by telecopier on the first Business Day following the transmission, as the case may be. In determining under any provision hereof the date when notice of any meeting or other event must be given, the date of giving the notice shall be included and the date of the meeting or other event shall be excluded. Accidental error or omission in giving notice or accidental failure to mail notice to any Warrantholder shall not invalidate any action or proceeding founded thereon.

(2) If, by reason of a strike, lockout or other work stoppage, actual or threatened, involving postal employees, a notice to be given to the Warrantholders hereunder could reasonably be considered unlikely to reach or to be delayed in reaching its destination, the notice will be valid and effective only if it is published once in the Report on Business section in the national edition of The Globe and Mail newspaper and in the Legal Notices section of the national edition of The Wall Street Journal, or, if there is a disruption of circulation of that newspaper, once in newspapers in the English language of general circulation and approved by the Warrant Agent in such cities in Canada and the United States where the Warrantholders reside, as noted on the register and, in the case of notice convening a meeting of Warrantholders, with such additional publications, in the same or in other

cities or both, as the Warrant Agent deems necessary for the reasonable protection of the Warrantholders or to comply with any applicable requirement of law or a stock exchange on which the Common Shares are listed and if a daily newspaper of general circulation is not, for any reason, published at the time in the English language in any city, the notice may be published in any other publication available in that city as is acceptable to the Warrant Agent. A notice so given will be deemed to have been given on the day on which it has been published in all of the cities in which publication was required (or first published in all the cities if more than one publication in any of them is required).

(3) Any mailings shall be made by registered mail, postage prepaid.

2.14 Notice to the Corporation or the Warrant Agent

(1) Unless herein otherwise expressly provided, a notice to be given hereunder to the Corporation or the Warrant Agent will be validly given if delivered or if sent by registered mail, postage prepaid or if transmitted by telecopier:

(a) if to the Corporation:

Vuzix Corporation
75 Town Centre Drive
Rochester, New York
14623

Attention: Paul J. Travers
Facsimile: 585-359-4172

with a copy to:

Wildeboer Dellelce LLP
Suite 800, Wildeboer Dellelce Place
365 Bay Street
Toronto, Ontario
M5H 2V1

Attention: Robert Fonn
Fax: 416-361-1790

and to:

Boylan, Brown, Code, Vigdor & Wilson, LLP
2400 Chase Square
Rochester, New York
14604

Attention: Robert F. Mechur
Fax: 585-232-3528

(b) if to the Warrant Agent:

Computershare Trust Company of Canada
100 University Avenue, 8th Floor
Toronto, Ontario
M5J 2Y1

Attention: Manager, Corporate Trust
Fax: 416-361-0470

and any notice delivered in accordance with the foregoing will be deemed to have been received on the date of delivery or, if mailed, on the fifth Business Day following the day of the mailing of the notice, or if transmitted by telecopier, on the first Business Day following the transmission.

(2) The Corporation or the Warrant Agent, as the case may be, may from time to time notify the other in the manner provided in subsection (1) of a change of address which, from the effective date of the notice and until changed by like notice, will be the address of the Corporation or the Warrant Agent, as the case may be, for all purposes of this Indenture.

(3) If, by reason of a strike, lockout or other work stoppage, actual or threatened, involving postal employees, a notice to be given to the Warrant Agent or to the Corporation hereunder by registered mail could reasonably be considered unlikely to reach or to be delayed in reaching its destination, the notice will be valid and effective only if it is delivered to an officer of the party to which it is addressed or if it is delivered to that party at the appropriate address provided in subsection (1) by courier, cable, telecopier, telegram, telex or other means of prepaid, transmitted, recorded communication, and any notice delivered in accordance with the foregoing will be deemed to have been received on the date of delivery to the officer or if delivered by courier, cable, telecopier, telegram, telex or other means of prepaid, transmitted, recorded communication, on the first Business Day following the date of the sending of the notice.

(4) Any mailings shall be made by registered mail, postage prepaid.

ARTICLE THREE — EXERCISE OF WARRANTS

3.01 Method of Exercise of Warrants

(1) Subject to and upon compliance with the provisions of this Article Three, the holder of any Warrant Certificate may exercise the right of purchase therein provided for by surrendering the Warrant Certificate to the Warrant Agent at its principal transfer offices in Toronto, Ontario during normal business hours on a Business Day prior to the Warrant Expiry Time, together with the Warrant exercise form attached to and forming part of the Warrant Certificate duly completed and executed by the holder specifying the number of Common Shares which the holder desires to purchase and the Subscription Price applicable at the time of the surrender calculated in accordance with the provisions of this Indenture.

(2) Notwithstanding any provision to the contrary contained in this Indenture, if any Common Shares issuable upon the exercise of Warrants require the maintenance of an effective Registration Statement, with respect to such Common Shares under the U.S. Securities Act, in no event shall such Common Shares be issued unless the Common Shares are registered under the U.S. Securities Act pursuant to an effective Registration Statement and the Corporation causes to be delivered to the holder a U.S. Prospectus; *provided however*, that if the Registration Statement ceases to be effective, prior to the

Expiry Time and for so long as the Registration Statement is not effective, subject to applicable law, a holder of any Warrant may, at its option:

(a) exercise such Warrants, if the holder is not a U.S. Purchaser and the holder delivers a duly completed and executed Warrant Exercise Certification certifying that the holder: (A)(1) is not in the United States; (2) is not a U.S. Person and is not exercising the Warrants for, or on behalf or benefit of, a U.S. Person or person in the United States; (3) did not execute or deliver the Warrant Exercise Form in the United States; (4) agrees not to engage in hedging transactions with regard to the Securities prior to the expiration of the six month distribution compliance period set forth in Rule 903(b)(3) of Regulation S; (5) acknowledges that the Common Shares issuable upon exercise of the Warrants are "restricted securities" as defined in Rule 144 of the U.S. Securities Act and upon the issuance thereof, and until such time as the same is no longer required under the applicable requirements of the U.S. Securities Act or applicable U.S. state laws and regulations, the certificates representing the Common Shares will bear a restrictive legend; and (6) acknowledges that the Corporation shall refuse to register any transfer of the Securities not made in accordance with the provisions of Regulation S, pursuant to registration under the U.S. Securities Act, or pursuant to an available exemption from registration under the U.S. Securities Act; and (B) neither the Corporation nor the holder has engaged in any "directed selling efforts" (as defined in Regulation S) in the United States; or

(b) exercise such Warrants in a transaction that does not require registration under the U.S. Securities Act or any applicable U.S. state laws and regulations and the holder has (A) delivered a duly completed and executed Warrant Exercise Certification certifying that the holder is exercising the Warrants pursuant to such exemptions and (B) furnished to the Corporation, prior to such exercise, an opinion of counsel of recognized standing in form and substance satisfactory to the Corporation to such effect.

(3) Unless the Warrant is exercised pursuant to an effective Registration Statement or under the conditions set forth in Section 3.02(a), the certificate representing the Common Shares issued upon exercise of the Warrant will bear legends restricting the transfer without registration under the U.S. Securities Act and applicable state securities laws and restricting transfer under the TSX-V, substantially in the form set forth below:

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (I) TO THE COMPANY, (II) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (III) IN COMPLIANCE WITH THE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, OR (IV) IN COMPLIANCE WITH ANOTHER EXEMPTION FROM REGISTRATION, IN EACH CASE AFTER PROVIDING A LEGAL OPINION OR OTHER EVIDENCE SATISFACTORY TO THE COMPANY THAT SUCH TRANSFER MAY BE MADE WITHOUT REGISTRATION UNDER THE SECURITIES ACT. HEDGING TRANSACTIONS INVOLVING THE SECURITIES REPRESENTED HEREBY MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH U.S. SECURITIES LAWS.

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE LISTED ON THE TSX VENTURE EXCHANGE ("TSX-V"); HOWEVER, THE SAID SECURITIES CANNOT BE TRADED THROUGH THE FACILITIES OF TSX-V SINCE THEY ARE NOT FREELY TRANSFERABLE, AND CONSEQUENTLY ANY CERTIFICATE REPRESENTING SUCH SECURITIES IS NOT "GOOD DELIVERY" IN SETTLMENT OF TRANSACTIONS ON TSX-V.

(4) If any Common Shares issuable upon the exercise of Warrants require the maintenance of a current Registration Statement, with respect to such Common Shares under the U.S. Securities Act, the Corporation shall have the authority to suspend the exercise of any or all Warrants while such registration statement is not current. Similarly, a Holder residing in a state where a required registration or governmental approval of issuance of the Common Shares is not in effect as of or has not been obtained within a reasonable time after the surrender date of the Warrant Certificate for exercise shall not be entitled to exercise Warrants, unless in the opinion of counsel to the Corporation such registration or approval in such state shall not be required or the Corporation otherwise authorizes the issuance. In such event, the Warrant Holder shall be entitled to transfer the Warrants to others, but only prior to the Expiration Date for the Warrants being transferred. If no Registration Statement is effective at any time when any Warrant is exercised, such Warrantholder shall be notified forthwith by the Warrant Agent that such Warrantholder is entitled, at his or her option, to exercise the Warrant only in accordance with the conditions set forth in Sections 3.01(2)(a)-(b) and upon delivery of a Warrant Exercise Certification to the Warrant Agent and the Corporation.

(5) Notwithstanding that the Corporation may not have maintained a current Registration Statement in respect of Common Shares under the U.S. Securities Act, no Warrantholder (whether a U.S. Purchaser or otherwise) shall have any right to receive, and the Corporation shall be under no obligation to pay to any Warrantholder (whether a U.S. Purchaser or otherwise), any cash amount or other consideration or compensation upon exercise of the Warrants, other than as expressly provided by this Indenture, and the Corporation shall not be under any obligation to redeem or otherwise purchase any Warrants in any circumstance; provided, however, that nothing in this clause shall limit or restrict any remedies of the Warrant Agent or any Warrantholder or Warrantholders in respect of a breach by the Corporation of a representation, warranty or covenant hereunder.

3.02 Payment of Subscription Price

The Subscription Price for Common Shares subscribed for upon exercise of the Warrants shall be paid by certified cheque, bank draft, money order or wire transfer of immediately availably funds payable to the Corporation at par in Canadian dollars in Toronto, Ontario.

3.03 Surrender of Warrant Certificate

Surrender of a Warrant Certificate and the exercise form and payment of the Subscription Price will be deemed to have been effected only on personal delivery thereof to, or if sent by mail or other means of transmission on actual receipt thereof by, the Warrant Agent at the office specified in section 3.01. All certified cheques, bank drafts, money orders or wire transfer of immediately availably funds received by the Warrant Agent as a result of the exercise by any Warrantholder held by it will forthwith be delivered by the Warrant Agent to the Corporation.

3.04 Subscription

(1) Every Warrant Exercise Form shall be signed by a Warrantholder who desires to exercise in whole or in part the right of purchase therein provided for, shall specify the number of Common Shares that the Warrantholder wishes to purchase (being not more than he is entitled to purchase), the Person or Persons in whose name or names the Common Shares which the Warrantholder desires to purchase are to be issued and such Person or Persons address or addresses and the number of Common Shares to be issued to each such Person, if more than one is so specified, and shall be substantially in the form of the exercise form comprising part of the Warrant Certificate.

(2) If any Common Shares subscribed for are to be issued to a Person or Persons other than the Warrantholder, the Warrantholder must pay to the Corporation or to the Warrant Agent on its behalf an amount equal to all exigible transfer taxes or other government charges, and the Corporation will not be required to issue or deliver any certificate evidencing any Common Shares unless or until that amount has been so paid or the Warrantholder has established to the satisfaction of the Corporation that the taxes and charges have been paid or that no taxes or charges are owing.

3.05 Effect of the Exercise of Warrants

(1) Subject to sections 3.05(2) and 3.12, on exercise of a Warrant, the Corporation shall cause to be issued to the Person or Persons in whose name or names the Common Shares so subscribed for are to be issued as specified in the exercise form, the number of Common Shares to be issued to such Person or Persons and such Person or Persons shall become a shareholder or shareholders of the Corporation in respect of those Common Shares with effect from the date on which the Warrant is exercised and shall be entitled to delivery of a certificate or certificates evidencing the Common Shares and the Corporation shall cause the certificate or certificates to be mailed to such Person or Persons at the address or addresses specified in the exercise form within five Business Days of the date on which the Warrant is exercised.

(2) Notwithstanding any provision herein contained to the contrary, the Corporation shall not be required to deliver certificates for Common Shares in any period while the share transfer books of the Corporation are closed, in which case the Common Shares subscribed for shall be deemed to have been issued, and such Person or Persons deemed to have become the holder or holders of record of such Common Shares, on the date on which such transfer books are reopened and such Common Shares shall be issued at the Exercise Price in effect on such date and, in the event of the exercise of any Warrant during any such period, delivery of certificates for Common Shares may be postponed for a period not exceeding five Business Days after the date of the reopening of the share transfer books.

3.06 Partial Exercise of Warrants

A Warrantholder may, from time to time, subscribe for and purchase any lesser number of Common Shares than the number of Common Shares to which such holder is entitled upon the exercise of Warrants, in which case the Warrantholder shall be entitled to receive a new Warrant Certificate in respect of the Common Shares purchasable under the Warrant Certificate and not then subscribed for and purchased, and the Warrant Agent shall issue a new Warrant Certificate upon surrender of the Warrant Certificate.

3.07 Cancellation of Warrants

All Warrants exercised as provided in section 3.01, partially exercised as provided in section 3.06 or exchanged for other Warrants as provided in section 2.08 shall be cancelled by the Warrant Agent and, if required by the Corporation, the Warrant Agent shall furnish the Corporation with a certificate as to the cancellation.

3.08 Expiration of Warrants

After the Warrant Expiry Time, all rights under this Indenture and under any Warrant that has not been exercised shall wholly cease and terminate and the Warrant Certificate therefor shall be wholly void and of no effect.

3.09 Intentionally Deleted

3.10 Price Adjustment Factor and Subscription Rights

(1) The Price Adjustment Factor and the number of Common Shares to be acquired by a Warrantholder on exercise of the Warrants will be adjusted from time to time in the events and in the manner provided and in accordance with the provisions of and rules set out in this section 3.10.

(2) If and whenever at any time from the date hereof to the Warrant Expiry Time, the Corporation:

(a) issues Common Shares or Convertible Securities to all or substantially all of the holders of Common Shares by way of stock dividend,

(b) subdivides or splits the outstanding Common Shares into a greater number of shares, or

(c) combines, consolidates or reduces the outstanding Common Shares into a lesser number of shares.

(each of such events being herein called a "**Common Share Reorganization**"), the Price Adjustment Factor will be adjusted, effective immediately after the record date for the dividend or, in the case of a subdivision, combination, consolidation or reduction, effective immediately after the record date or the effective date if no record date is fixed, to the number that is the product of:

(d) the Price Adjustment Factor in effect on that effective date or record date; and

(e) the fraction, of which:

(i) the numerator is the total number of Common Shares outstanding on that effective date or record date before giving effect to the Common Share Reorganization, and

(ii) the denominator is the total number of Common Shares that are or would be outstanding immediately after that effective date or record date after giving effect to the Common Share Reorganization and assuming all Convertible Securities issued as part of the Common Share Reorganization had then been converted into or exchanged for Common Shares or all rights to acquire Common Shares had then been exercised.

(3) If and whenever at any time from the date hereof to the Warrant Expiry Time, the Corporation shall fix a record date for the issuance of rights, options or warrants to all or substantially all of the holders of the outstanding Common Shares entitling them, for a period expiring not more than 45 days after the record date, to subscribe for or purchase Common Shares or Convertible Securities at a price per share (or having a conversion price per share) less than 95% of the Current Market Price on the earlier of the record date and the date on which the Corporation announces its intention to make such issuance (any such issuance being herein called a "**Rights Offering**"), the Price Adjustment Factor shall be adjusted on the record date so that it shall equal the number which is the product of the Price Adjustment Factor in effect immediately prior to the record date and the fraction:

(i) the numerator of which shall be the aggregate of:

A. the number of Common Shares outstanding as of the record date for the Rights Offering, and

B. a number determined by dividing (1) the product of the number of Common Shares which may be issued or subscribed for during the Rights Period upon the exercise of the rights, warrants, or options under the Rights Offering and the price at which such Common Shares are offered by (2) the Current Market Price of the Common Shares as of the record date for the Rights Offering; and

(ii) the denominator of which shall be the number of Common Shares outstanding after giving effect to the Rights Offering and including the number of Common Shares actually issued or subscribed for during the Rights Period upon exercise of the rights, warrants or options under the Rights Offering.

The adjustment shall be made successively whenever a record date is fixed, provided that if two or more such record dates or dates of announcement, as applicable, or record dates or dates of announcement, as applicable, referred to in subsection (5) are fixed within a period of 35 trading days, the adjustment shall be made successively as if each of such record dates occurred on the earliest of such record dates. To the extent that any rights, options or warrants are not so issued or any of the rights, options or warrants so issued are not exercised prior to the expiration thereof, the Price Adjustment Factor will be readjusted to the Price Adjustment Factor in effect immediately prior to the record date, and the Price Adjustment Factor will be further adjusted based upon the number of additional Common Shares actually delivered upon the exercise of the rights, options or warrants, as the case may be.

(4) If at any time from the date hereof to the Warrant Expiry Time, the Corporation shall fix a record date for the issue of rights, options or warrants to all or substantially all the holders of the outstanding Common Shares entitling them, for a period expiring not more than 45 days after such record date, to subscribe for or purchase Common Shares or Convertible Securities at a price per share (or having a conversion price per share) not less than 95% of the Current Market Price on the earlier of the record date and the date on which the Corporation announces its intention to make such issuance, no adjustment shall be made to the Price Adjustment Factor.

(5) If and whenever at any time from the date hereof to the Warrant Expiry Time the Corporation shall fix a record date for the making of an issue or distribution to all or substantially all the holders of its outstanding Common Shares of (a) shares of any class, excluding Common Shares or Convertible Securities referred to in paragraph 3.10(2)(a), whether of the Corporation or any other corporation; (b) rights, options or warrants, excluding those referred to in subsection 3.10(3) or (4); or (c) evidences of its indebtedness; or (d) property, cash or other assets, excluding cash dividends in the ordinary course or property distributed in lieu thereof at the option of the shareholders and if such issuance or distribution does not constitute a Common Share Reorganization or a Rights Offering (any of such non-excluded events being herein called a "**Special Distribution**") then, in each such case, the Price Adjustment Factor shall be adjusted on the record date so that it shall equal the number that is the product of the Price Adjustment Factor in effect immediately prior to the record date and the fraction:

(i) the numerator of which shall be the total number of Common Shares outstanding immediately prior to the record date multiplied by the Current Market Price on the earlier of the day immediately prior to such record date and the date on which the Corporation announces its intention to make such issuance, less the aggregate fair market value (as determined by the Directors with the approval of the Warrant Agent, which determination shall be conclusive) of the shares or rights, options or warrants or evidences of indebtedness or property, cash or assets so distributed, and

(ii) the denominator of which shall be the total number of Common Shares outstanding immediately prior to the record date multiplied by such Current Market Price of the Common Shares.

The adjustment shall be made successively whenever a record date is fixed, provided that if two or more such record dates or dates of announcement, as applicable, or record dates or dates of announcement, as applicable, referred to in subsection (3) are fixed within a period of 35 trading days, the adjustment shall be made successively as if each of such record dates occurred on the earliest of such record dates. To the extent that any distribution is not so made, the Price Adjustment Factor shall then be readjusted to the Price Adjustment Factor which would then be in effect if the record date had not been fixed or to the Price Adjustment Factor which would then be in effect based upon the shares or rights, options or warrants or evidences of indebtedness or property, cash or assets actually distributed, as the case may be.

(6) On any adjustment of the Price Adjustment Factor pursuant to subsection 3.10(2), (3) or (5), including any readjustment, the number of Common Shares purchasable on exercise of each Warrant will be adjusted, effective at the same time as the adjustment of the Price Adjustment Factor, by multiplying the number of Common Shares so purchasable immediately before the adjustment by a fraction which is the reciprocal of the fraction used in the adjustment of the Price Adjustment Factor.

(7) If and whenever at any time from the date hereof to the Warrant Expiry Time there is:

(a) a reclassification or redemption of the Common Shares outstanding, a change of Common Shares into other shares or securities (other than a Common Share Reorganization), or any other capital reorganization of the Corporation except as described in subsections 3.10(2), (3), (4) and (5),

(b) a consolidation, merger, arrangement or amalgamation of the Corporation with or into another body corporate resulting in a reclassification of outstanding Common Shares or a change of Common Shares into other shares or securities, or

(c) a transaction whereby all or substantially all the Corporation's undertaking and assets become the property of another corporation or other entity

(any of those events being herein called a "**Corporate Reorganization**"), a holder who thereafter exercises Warrants will be entitled to receive and will accept, for the Subscription Price then in effect, in lieu of the Common Shares (and any other securities to which Warrantholders are then entitled on the exercise of Warrants) to which he would otherwise have been entitled on exercise immediately prior to the Corporate Reorganization, the kind and amount of shares or other securities or property (including cash) that he would have been entitled to receive as a result of the Corporate Reorganization if, on the effective date thereof, he had been the holder of the number of Common Shares (and any other securities to which Warrantholders are then entitled on the exercise of Warrants) to which he would have been entitled on the exercise of the Warrant or Warrants immediately prior to the Corporate Reorganization.

(8) As a condition precedent to taking any action that would require an adjustment pursuant to subsection (7), the Corporation will take all action that, in the opinion of Counsel, is necessary in order that the Corporation, any successor or any successor to its assets and undertaking, shall be obligated to and may validly and legally issue as fully paid and non-assessable all the Common Shares or other shares or securities or property to which Warrantholders will be entitled on the exercise of Warrants thereafter.

(9) If necessary as a result of any Corporate Reorganization, appropriate adjustments will be made in the application of the provisions set forth in this Article Three with respect to the rights and interests of Warrantholders to the end that the provisions set forth in this Article Three will thereafter correspondingly be made applicable as nearly as may reasonably be possible to any shares or other securities or property thereafter deliverable on the exercise of a Warrant. Any such adjustment will be made by and set forth in an amendment hereto approved by the Directors and by the Warrant Agent and will for all purposes be conclusively deemed to be an appropriate adjustment.

(10) If the purchase price provided for in any right, warrant or option issued in connection with a Rights Offering is decreased, or the conversion price for Convertible Securities issued in connection with a Common Share Reorganization is increased, the Price Adjustment Factor shall forthwith be changed to whatever Price Adjustment Factor would have been obtained had the adjustment made in connection with the issuance of all such rights, warrants, options or Convertible Securities been made upon the basis of the purchase price as so decreased or the conversion price as so increased, provided that the provisions of this subparagraph shall not apply to any increase or decrease resulting from provisions in any rights, warrants, options or securities designed to prevent dilution if the increase or decrease shall not have been proportionately greater than the change, if any, in the Price Adjustment Factor to be made at the same time pursuant to the provisions of this section 3.10.

3.11 Subscription Rights Adjustment Rules

The following rules and procedures will be applicable to adjustments made pursuant to section 3.10:

(1) the adjustments and readjustments provided for in section 3.10 shall be cumulative and, subject to paragraph 3.11(2), will apply (without duplication) to successive issues, subdivisions, combinations, consolidations, distributions and other events that require an adjustment;

(2) no adjustment in the Price Adjustment Factor, or resulting adjustment in the number of Common Shares issuable on exercise of Warrants, will be made unless the adjustment would result in a change of at least 1% in the prevailing Price Adjustment Factor or the number of Common Shares purchasable upon the exercise of the Warrants would change by at least one one-hundredth of a Common Share; provided that any adjustment that would have been required to be made except for the provisions of this paragraph, will be carried forward and taken into account in any subsequent adjustment;

(3) no adjustment will be made in respect of an event described in paragraph 3.10(2)(a) or subsection 3.10(3) or (5) if the Warrantholders are entitled to participate in the event on the same terms, mutatis mutandis, as if they had exercised their Warrants on or prior to the effective date or record date of such event. Any participation of Warrantholders in the distributions, dividends or other operations referred to in paragraph 3.10(2)(a) or subsection 3.10(3) or (5) is subject to the prior approval of the TSX-V;

(4) for the purposes of subsections 3.10(2), (3), (4) and (5), there will be deemed not to be outstanding any Common Shares owned by or held for the account of the Corporation;

(5) any dispute that arises at any time with respect to any adjustment pursuant to this Indenture will be conclusively determined (as between the Corporation, the Warrantholders, the Warrant Agent and all transfer agents and shareholders of the Corporation) by the Auditors or, if they are unable or unwilling to act, by such firm of independent chartered accountants or registered public accountants as is selected by the Directors, and any determination by them will be binding on the Corporation, the Warrantholders, the Warrant Agent and all transfer agents and shareholders of the Corporation. In the event any such determination is made, the Corporation shall deliver a certificate to the Warrantholders describing such determination;

(6) in the absence of a resolution of the Directors fixing the record date for an event referred to in section 3.10, the Corporation will be deemed to have fixed as the record date therefore the date on which the event is effected or such date as may be required by law;

(7) in the event that the Corporation, after the date of issue of the Warrants, shall take any action affecting the Common Shares, other than action contemplated in section 3.10, which in the opinion of the Directors would materially affect the rights of Warrantholders, the Exercise Price or the number of Common Shares purchasable upon exercise shall be adjusted in such manner, if any, and at such time, by action of the Directors, in their sole discretion as they may determine to be equitable in the circumstances, but subject in all cases to TSX-V Approval and any necessary regulatory approval. Failure of the taking of action by the Directors so as to provide for an adjustment on or prior to the effective date of any action by the Corporation affecting the Common Shares shall be conclusive evidence that the Directors have determined that it is equitable to make no adjustment in the circumstances; and

(8) as a condition precedent to the taking of any action which would require an adjustment in any of the rights under the Warrants, the Corporation will take any action which may in the opinion of Counsel to the Corporation, or any successor to the Corporation, will be obligated to and may validly and legally issue all the shares or other securities or property which the holders of Warrants would be entitled to receive thereafter on the exercise thereof in accordance with the provisions hereof.

3.12 Postponement of Issue of Common Shares, etc.

In any case in which section 3.10 requires an adjustment to take effect immediately after the effective date of or record date for an event, and a Warrant is exercised after that date and before the consummation of the event (which in the case of rights, options and warrants will be the date the rights, options and warrants are issued), the Corporation may postpone until consummation issuing to the Warrantholder such of the shares, securities or property to which the Warrantholder is entitled pursuant to the exercise as exceeds those to which he would have been entitled if the Warrant had been exercised immediately before that date, provided however, that the Corporation will deliver to the Warrantholder an appropriate instrument evidencing such holder's right to receive such additional shares, securities or property upon the occurrence and consummation of such event and the right to receive any dividend or other distribution in respect of such additional shares, securities or property declared in favour of the holders of record of Common Shares or of such securities or property on or after that date or such later date as such holder would, but for the provisions of this subsection, have become the holder of record of such additional shares or of such securities or property pursuant to section 3.05.

3.13 Notice of Certain Events.

(1) At least 14 days before the effective date of or record date for any event referred to in section 3.10, other than a subdivision or consolidation of the Common Shares, that requires or might require an adjustment in the subscription rights pursuant to a Warrant, including the Price Adjustment Factor and the number of Common Shares purchasable on exercise of Warrants, the Corporation will:

(a) give notice to the Warrant Agent of the particulars of the event and, to the extent determinable, any adjustment required and the computation of the adjustment, and

(b) give notice to the Warrantholders of the particulars of the event and, to the extent determinable, any adjustment required.

The notice need only set forth particulars as have been determined at the date that notice is given.

(2) If any adjustment for which a notice pursuant to subsection 3.13(1) is given is not then determinable, the Corporation will promptly after the adjustment is determinable:

(a) give notice to the Warrant Agent of the adjustment, such notice to set forth the computation of the adjustment and to be certificated by an officer of the Corporation, and

(b) give notice to the Warrantholders of the adjustment.

(3) (a) The Warrant Agent shall be entitled to act and rely on any adjustment calculation of the Corporation or the Auditors.

(b) The Warrant Agent shall not at any time be under any duty or responsibility to any holder to determine whether facts exist which may require any adjustment contemplated by this article, or with respect to the nature or extent of any such adjustment when made, or with respect to the method employed in making same.

(c) The Warrant Agent shall not be accountable with respect to the validity or value (or the kind or amount) of any shares or of any other shares or securities or property which may at any time be issued or delivered upon the exercise or deemed exercise of any Warrant.

(d) The Warrant Agent shall not be responsible for any failure of the Corporation to make any cash payment or to issue, transfer or deliver shares or share certificates upon the surrender of any Warrant for the purpose of exercise or deemed exercise, or to comply with any of the covenants contained in this Article Three.

3.14 No Fractional Common Shares

The Corporation will not, pursuant to section 3.10 or under any other circumstances, be obligated to issue any fraction of a Common Share on the exercise of Warrants. If any fractional interest in a Common Share would, except for the provisions of this section, be deliverable upon the exercise of any Warrants, the Corporation shall in lieu of delivering a fractional Common Share therefor, satisfy the right to receive the fractional Common Share by payment to the holder of the Warrants of an amount in cash (computed, in the case of a fraction of a cent, rounded to the next lower cent) equal to the same fraction of the Current Market Price per Common Share on the date of exercise of the Warrants.

3.15 Reclassifications, Reorganizations, etc.

(1) In case of:

(a) any reclassifications, redesignations or change of the Common Shares (other than a change from no par value to par value, or as a result of a subdivision or consolidation);

(b) any consolidation or merger of the Corporation with, or consolidation or merger of the Corporation into, any other corporation (other than a consolidation or merger in which the Corporation is the continuing corporation and which does not result in any reclassification or change, other than as aforesaid, of the Common Shares);

(c) a reorganization of the Corporation; or

(d) any sale, transfer or other disposition of all or substantially all of the assets of the Corporation,

the Corporation or the corporation formed by the amalgamation or the corporation into which the Corporation shall have been merged or the reorganized Corporation, or the corporation which shall have acquired such assets, as the case may be, shall execute and deliver to the Warrant Agent a supplemental indenture providing that the holder of Warrants then outstanding shall have the right thereafter (until the Warrant Expiry Time) to exercise Warrants only into the kind and amount of common shares and other securities and property (including cash) receivable upon such reclassification, change, amalgamation, merger, reorganization, sale, transfer or other disposition by a holder of

the number of Common Shares which were purchasable upon the exercise of the Warrants had the Warrants been exercised immediately prior to the reclassification, change, amalgamation, merger, reorganization, sale, transfer or other disposition.

(2) The supplemental indenture shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Article Three.

(3) The provisions of this section 3.15 shall apply to successive reclassifications, changes, amalgamations, mergers, reorganizations, sales, transfers or other dispositions.

3.16 Securities Law Restrictions

Notwithstanding anything herein contained, Common Shares will only be issued by the Corporation upon exercise of the Warrants in compliance with the securities laws of any applicable jurisdiction.

ARTICLE FOUR — COVENANTS OF THE CORPORATION

4.01 General Covenants

The Corporation represents, warrants and covenants with the Warrant Agent for the benefit of the Warrant Agent and the Warrantholders that so long as any warrants remain outstanding:

(1) it will at all times use commercially reasonable efforts to maintain its corporate existence;

(2) it is duly authorized to create and issue the Warrants to be issued hereunder and the Warrant Certificates when issued and certified as herein provided will be legal, valid and binding obligations of the Corporation;

(3) subject to the provisions of this Indenture, it will cause the Common Shares from time to time subscribed for and purchased pursuant to the exercise of Warrants, and the certificates representing such Common Shares, to be duly issued and delivered in accordance with the Warrants and the terms hereof;

(4) at all times while any Warrants are outstanding it shall reserve and there shall remain unissued out of its authorized capital a number of Common Shares sufficient to enable the Corporation to meet its obligation to issue Common Shares on the exercise of Warrants outstanding hereunder from time to time;

(5) upon the exercise by the holder of any Warrants of the right of purchase provided for therein and herein and, upon payment of the Subscription Price applicable thereto for each Common Share in respect of which the right of purchase is so exercised, all Common Shares issuable upon the exercise shall be issued as fully paid and non-assessable;

(6) it shall do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered all other acts, deeds and assurances in law as the Warrant Agent may reasonably require for better accomplishing and effecting the intentions and provisions of this Indenture;

(7) use its commercially reasonable best efforts to maintain the listing of the Common Shares issued pursuant to the exercise of the Warrants on the TSX-V or such other exchange or quotation system as the Directors determine appropriate;

(8) it will use its commercially reasonable efforts to maintain its status as a reporting issuer or equivalent not in default, and not be in default in any material respect of the applicable requirements of, the applicable securities laws of each of the provinces of Canada and the federal securities laws of the United States;

(9) if at any time no Registration Statement is effective, the Corporation will give notice to the Warrant Agent forthwith and will give notice, in accordance with the provisions set out in Section 2.14, as soon as reasonably practicable, but in any event within 5 Business Days, after learning that no Registration Statement is effective. Such notice must be sent by fax, if possible, to any securities depositary that is a registered holder;

(10) it will use its commercially reasonable efforts to maintain the Registration Statement continuously effective under the U.S. Securities Act;

(11) if, in the opinion of outside counsel, any instrument is required to be filed with, or any permission, order or ruling is required to be obtained from any securities administrator, regulatory agency or governmental authority in Canada or the United States or any other step is required under any federal or provincial law of Canada or any federal or state law of the United States before the Common Shares issuable upon exercise of Warrants may be issued or delivered to a Warrantholder, the Corporation will use its reasonable efforts to file such instrument, obtain such permission, order or ruling or take all such other actions, at its expense, as are required; and

(12) it shall notify promptly (but no later than five (5) Business Days) in writing the Warrant Agent and the Agents of any breach by the Corporation of its obligations hereunder.

4.02 Warrant Agent's Remuneration and Expenses

The Corporation will pay to the Warrant Agent from time to time such reasonable remuneration for its services hereunder as may be agreed upon between the Corporation and the Warrant Agent and will pay or reimburse the Warrant Agent upon its request for all reasonable expenses, disbursements and advances properly incurred or made by the Warrant Agent in the administration or execution of the duties and obligations hereby created (including the reasonable compensation and the disbursements of its counsel and all other advisors and assistants not regularly in its employ), both before any default hereunder and thereafter until all duties and obligations of the Warrant Agent under the provisions hereof shall be finally and fully performed, except any such expense, disbursement or advance as may arise from the negligence or wilful misconduct of the Warrant Agent, its servants or agents or its counsel or other advisors or assistants aforesaid. Any amount due under this section and unpaid 30 days after request for such payment shall bear interest from the expiration of such 30 days at rates as determined for the Warrant Agent's corporate client account at Toronto, Ontario from time to time.

4.03 Notice to Warrantholders of Certain Events

The Corporation covenants with the Warrant Agent for the benefit of the Warrant Agent and the Warrantholders that, so long as any of the Warrants are outstanding, it will not:

(1) pay any dividend payable in shares of any class to the holders of its Common Shares or make any other distribution (other than a cash distribution made as a dividend out of out of funds legally available for the payment of dividends) to the holders of its Common Shares;

(2) offer to the holders of its Common Shares rights to subscribe for or to purchase any Common Shares or shares of any class or any other securities, rights, warrants or options;

(3) make any repayment of capital on, or distribution of evidences of indebtedness or any of its assets (excluding cash dividends) to the holders of, its Common Shares;

(4) consolidate or merge with any other Person or sell or lease all or substantially all of its assets;

(5) effect any subdivision, consolidation or reclassification of its Common Shares; or

(6) liquidate, dissolve or wind-up;

unless, in each such case, the Corporation shall have given notice, in the manner specified in section 2.13, to each Warrantholder, of the action proposed to be taken and the date on which (a) the books of the Corporation shall close or a record shall be taken for such dividend, repayment, distribution, subscription rights or other rights, warrants or securities, or (b) such subdivision, consolidation, reclassification, merger, sale or lease, dissolution, liquidation or winding-up shall take place, as the case may be, provided that the Corporation shall only be required to specify in the notice those particulars of the action as shall have been fixed and determined at the date on which the notice is given. The notice shall also specify the date as of which the holders of Common Shares of record shall participate in the dividend, repayment, distribution, subscription of rights or other rights, warrants or securities, or shall be entitled to exchange their Common Shares for securities or other property deliverable upon such reclassification, merger, sale or lease, other disposition, dissolution, liquidation or winding-up, as the case may be. The notice shall be given, with respect to the actions described in subsections (i), (ii), (iii), (iv), (v) and (vi) above not less than 10 days prior to the record date or the date on which the Corporation's transfer books are to be closed with respect thereto.

4.04 Closure of Common Share Transfer Books

The Corporation further covenants and agrees that it will not during the period of any notice given under section 4.03 close its share transfer books or take any other corporate action which might deprive the Warrantholders of the opportunity of exercising their Warrants; provided that nothing contained in this section 4.04 shall be deemed to affect the right of the Corporation to do or take part in any of the things referred to in section 4.03 or to pay cash dividends on the shares of any class or classes in its capital from time to time outstanding.

4.05 Enforcement by Warrant Agent

If the Corporation shall fail to perform any of its covenants contained in this Indenture, the Warrant Agent may notify the holders of such failure on the part of the Corporation or may itself perform any of said covenants capable of being performed by it, but shall be under no obligation to do so or to notify the holders. All sums expended or advanced by the Warrant Agent in so doing shall be repayable as provided in section 4.02. No such performance, expenditure or advance by the Warrant Agent shall be deemed to relieve the Corporation of any default hereunder or its continuing obligations hereunder.

ARTICLE FIVE — MEETINGS OF WARRANTHOLDERS

5.01 Right to Convene Meeting

The Warrant Agent may at any time and from time to time, and shall on receipt of a written request of the Corporation or of a Warrantholders' Request, convene a meeting of the Warrantholders provided that the Warrant Agent is indemnified and funded to its reasonable satisfaction by the Corporation or by the Warrantholders signing such Warrantholders' Request against the costs which may be incurred in connection with the calling and holding of such meeting. If the Warrant Agent fails to convene a meeting within seven (7) Business Days after the receipt of a written request of the Corporation or Warrantholders' Request and indemnity given as aforesaid, the Corporation or such Warrantholders, as the case may be, may convene such meeting. Any such meeting shall be held in such location as may be approved or determined by the Warrant Agent.

5.02 Notice

At least twenty-one (21) days' prior notice of any meeting of Warrantholders shall be given to the Warrantholders in the manner provided for in section 2.13 and a copy of such notice shall be delivered to the Warrant Agent unless the meeting has been called by it, and to the Corporation unless the meeting has been called by it. Such notice shall state the time and place of the meeting, the general nature of the business to be transacted and shall contain such information as is reasonably necessary to enable the Warrantholders to make a reasoned decision on the matter, but it shall not be necessary for any such notice to set out the terms of any resolution to be proposed or any of the provisions of this Article Five. The notice convening any such meeting may be signed by an appropriate officer of the Warrant Agent or of the Corporation or the Person designated by such Warrantholders, as the case may be.

5.03 Chairman

The Warrant Agent may nominate in writing an individual to be Chairman of the meeting and if no individual is so nominated, or if the individual so nominated is not present within fifteen (15) minutes after the time fixed for the holding of the meeting, the Warrantholders present in Person or by proxy shall appoint an individual present to be Chairman.

5.04 Quorum

Subject to the provisions of section 5.11, at any meeting of the Warrantholders a quorum shall consist of Warrantholders present in person or represented by proxy holding at least 10% of the aggregate number of then outstanding Warrants provided that at least two (2) Persons entitled to vote thereat are personally present or represented by proxy. If a quorum of the Warrantholders shall not be present within thirty (30) minutes from the time fixed for holding any meeting, the meeting, if summoned by the Warrantholders or on a Warrantholders' Request, shall be dissolved; but in any other case the meeting shall be adjourned to the same day in the next week (unless such day is not a Business Day, in which case it shall be adjourned to the next following Business Day) at the same time and place and no notice of the adjournment need be given. Any business may be brought before or dealt with at an adjourned meeting which might have been dealt with at the original meeting in accordance with the notice calling the same. No business shall be transacted at any meeting of Warrantholders unless a quorum is present at the commencement of the meeting. At the adjourned meeting the Warrantholders present in person or by proxy shall form a quorum and may transact the business for which the meeting was originally convened, notwithstanding that they may not hold at least 10% of the aggregate number of the then outstanding Warrants.

5.05 Power to Adjourn

The Chairman of any meeting at which a quorum of the Warrantholders is present may, with the consent of the meeting, adjourn any such meeting, and no notice of such adjournment need be given except such notice, if any, as the meeting may prescribe.

5.06 Show of Hands

Subject to section 5.07, every question submitted to a meeting shall be decided in the first place by a majority of the votes given on a show of hands except that votes on an Extraordinary Resolution shall be given in the manner hereinafter provided. At any such meeting, unless a poll is duly demanded as herein provided, a declaration by the Chairman that a resolution has been carried or carried unanimously or by a particular majority or lost or not carried by a particular majority shall be conclusive evidence of the fact.

5.07 Poll and Voting

On every Extraordinary Resolution, and when demanded by the Chairman or by one or more of the Warrantholders acting in Person or by proxy on any other question submitted to a meeting and after a vote by show of hands, a poll shall be taken in such manner as the Chairman shall direct. Questions other than those required to be determined by Extraordinary Resolution shall be decided by a majority of the votes cast on the poll. On a show of hands, every Person who is present and entitled to vote, whether as a Warrantholder or as proxy for one or more absent Warrantholders, or both, shall have one vote. On a poll, each Warrantholder present in Person or represented by a proxy duly appointed by instrument in writing shall be entitled to one vote in respect of each whole Common Share which he is entitled to acquire upon the exercise of the Warrants then held by him. A proxy need not be a Warrantholder. The Chairman of any meeting shall be entitled, both on a show of hands and on a poll, to vote in respect of the Warrants, if any, held or represented by him but shall not be entitled to a casting vote in the case of an equality of votes.

5.08 Regulations

Subject to the provisions of this Indenture, the Warrant Agent, or the Corporation with the approval of the Warrant Agent, may from time to time make and from time to time vary such regulations as it shall consider necessary for:

(a) the deposit of instruments appointing proxies at such place and time as the Warrant Agent, the Corporation or the Warrantholders convening the meeting, as the case may be, may in the notice convening the meeting direct;

(b) the deposit of instruments appointing proxies at some approved place other than the place at which the meeting is to be held and enabling particulars of such instruments appointing proxies to be mailed, cabled or delivered before the meeting to the Corporation or to the Warrant Agent at the place where the same is to be held and for the voting of proxies so deposited as though the instruments themselves were produced at the meeting;

(c) the form of the instrument of proxy and the manner in which such form of proxy must be executed; and

(d) generally for the calling of meetings of Warrantholders and the conduct of business thereat.

Any regulations so made shall be binding and effective on Warrantholders and the votes given in accordance therewith shall be valid and shall be counted. Save as such regulations may provide, the only Persons who shall be recognized at any meeting as a Warrantholder, or be entitled to vote or be present at the meeting in respect thereof (subject to section 5.09), shall be Warrantholders or their duly appointed proxies.

5.09 Corporation, Warrant Agent and Counsel may be Represented

The Corporation and the Warrant Agent, by their respective employees, directors and officers, and the counsel for each of the Corporation, the Warrantholders and the Warrant Agent may attend any meeting of the Warrantholders and speak thereto but shall have no vote as such.

5.10 Powers Exercisable by Extraordinary Resolution

In addition to all other powers conferred upon them by any other provisions of this Indenture or by law, the Warrantholders shall have the power, exercisable from time to time by Extraordinary Resolution:

(a) to agree with the Corporation to any modification, alteration, compromise or arrangement of the rights of Warrantholders and/or the Warrant Agent (subject to consent of the Warrant Agent) in its capacity as warrant agent hereunder or on behalf of the Warrantholders against the Corporation, whether such rights arise under this Indenture or the Warrants or otherwise;

(b) to amend or repeal any Extraordinary Resolution previously passed or sanctioned by the Warrantholders;

(c) upon the Warrant Agent being furnished with an indemnity as it may in its discretion determine, to direct or authorize the Warrant Agent to enforce any of the covenants on the part of the Corporation contained in this Indenture or the Warrants or to enforce any of the rights of the Warrantholders in any manner specified in such Extraordinary Resolution or to refrain from enforcing any such covenant or right;

(d) to waive and direct the Warrant Agent to waive any default on the part of the Corporation in complying with any provisions of this Indenture or the Warrants either unconditionally or upon any conditions specified in such Extraordinary Resolution;

(e) to restrain any Warrantholder from taking or instituting any suit, action or proceeding against the Corporation for the enforcement of any of the covenants on the part of the Corporation contained in this Indenture or the Warrants or to enforce any of the rights of the Warrantholders;

(f) to direct any Warrantholder who, as such, has brought any suit, action or proceeding to stay or discontinue or otherwise deal with any such suit, action or proceeding, upon payment of the costs, charges and expenses reasonably and properly incurred by such Warrantholder in connection therewith;

(g) to direct or authorize the Warrant Agent subject to receipt of adequate funding and indemnity to enforce any of the covenants on the part of the Corporation contained in this Indenture or the Warrants or to enforce any of the rights of the Warrantholders in any manner specified in such Extraordinary Resolution or to refrain from enforcing any such covenant or right;

(h) to agree with the Corporation to any change in or omission from the provisions contained in the Warrants and this Indenture or any ancillary or supplemental instrument which may be agreed to by the Corporation, and to authorize the Warrant Agent to concur in and execute any ancillary or supplemental agreement embodying the change or omission;

(i) to remove the Warrant Agent or its successor in office and to appoint a new warrant agent or warrant agents to take the place of the Warrant Agent so removed; and

(j) to assent to any compromise or arrangement with any creditor or creditors or any class or classes of creditors, whether secured or otherwise, and with the holders of any shares or other securities of the Corporation.

5.11 Meaning of Extraordinary Resolution

(a) The expression "**Extraordinary Resolution**" when used in this Indenture means, subject as hereinafter in this section 5.11 and in section 5.14 provided, a resolution proposed at a meeting of Warrantholders duly convened for that purpose and held in accordance with the provisions of this Article Five, at which there are present in Person or by proxy Warrantholders holding at least 10% of the aggregate number of the then outstanding Units and passed by the affirmative votes of Warrantholders holding not less than 66-2/3% of the aggregate number of the then outstanding Warrants represented at the meeting and voted on the poll upon such resolution.

(b) If, at any meeting called for the purpose of passing an Extraordinary Resolution, Warrantholders holding at least 10% of the aggregate number of the then outstanding Warrants are not present in Person or by proxy within thirty (30) minutes after the time appointed for the meeting, then the meeting, if convened by Warrantholders or on a Warrantholders' Request, shall be dissolved; but in any other case it shall stand adjourned to such day, being not less than fifteen (15) or more than sixty (60) days later, and to such place and time as may be appointed by the Chairman. Not less than ten (10) days' prior notice shall be given of the time and place of such adjourned meeting in the manner provided in section 2.13. Such notice shall state that at the adjourned meeting the Warrantholders present in Person or represented by proxy shall form a quorum but it shall not be necessary to set forth the purposes for which the meeting was originally called or any other particulars. At the adjourned meeting the Warrantholders present in Person or represented by proxy shall form a quorum and may transact the business for which the meeting was originally convened and a resolution proposed at such adjourned meeting and passed by the requisite vote as provided in subsection 5.11(a) shall be an Extraordinary Resolution within the meaning of this Indenture notwithstanding that Warrantholders holding at least 25% of the then outstanding Warrants are not present in Person or represented by proxy at such adjourned meeting.

(c) Votes on an Extraordinary Resolution shall always be given on a poll and no demand for a poll on an Extraordinary Resolution shall be necessary.

5.12 Powers Cumulative

It is hereby declared and agreed that any one or more of the powers or any combination of the powers in this Indenture stated to be exercisable by the Warrantholders by Extraordinary Resolution or otherwise may be exercised from time to time and the exercise of any one or more of such powers or any combination of powers from time to time shall not be deemed to exhaust the right of the Warrantholders to exercise such powers or combination of powers then or thereafter from time to time.

5.13 Minutes

Minutes of all resolutions and proceedings at every meeting of Warrantholders shall be made and duly entered in books to be from time to time provided for that purpose by the Warrant Agent at the reasonable expense of the Corporation, and any such minutes as aforesaid, if signed by the Chairman of the meeting at which such resolutions were passed or proceedings had, or by the Chairman of the next succeeding meeting of the Warrantholders, shall be prima facie evidence of the matters therein stated and, until the contrary is proved, every such meeting in respect of the proceedings of which minutes shall have been made shall be deemed to have been duly convened and held, and all resolutions passed thereat or proceedings taken shall be deemed to have been duly passed and taken.

5.14 Instruments in Writing

All actions which may be taken and all powers that may be exercised by the Warrantholders at a meeting held as provided in this Article Five may also be taken and exercised by Warrantholders holding at least 66-2/3% of the aggregate number of the then outstanding Warrants issuable upon the exercise of all the then outstanding Warrants by an instrument in writing signed in one or more counterparts by such Warrantholders in Person or by attorney duly appointed in writing, and the expression "Extraordinary Resolution" when used in this Indenture shall include an instrument so signed.

5.15 Binding Effect of Resolutions

Every resolution and every Extraordinary Resolution passed in accordance with the provisions of this Article Five at a meeting of Warrantholders shall be binding upon all the Warrantholders, whether present at or absent from such meeting, and every instrument in writing signed by Warrantholders in accordance with section 5.14 shall be binding upon all the Warrantholders, whether signatories thereto or not, and each and every Warrantholder and the Warrant Agent (subject to the provisions for indemnity herein contained) shall be bound to give effect accordingly to every such resolution and instrument in writing. In the case of an instrument in writing the Warrant Agent shall give notice in the manner contemplated in sections 2.13 and 2.14 of the effect of the instrument in writing to all Warrantholders and the Corporation as soon as is reasonably practicable.

ARTICLE SIX — SUPPLEMENTAL INDENTURES AND SUCCESSOR COMPANIES

6.01 Provision for Supplemental Indentures for Certain Purposes

From time to time the Corporation (when authorized by the Directors) and the Warrant Agent may, subject to the provisions of these presents, and they shall, when so directed by these presents, execute and deliver by their proper officers or directors, as the case may be, indentures or instruments supplemental hereto, which thereafter shall form part hereof, for any one or more or all of the following purposes:

(a) providing for the issuance of additional Warrants hereunder and any consequential amendments hereto as may be required by the Warrant Agent, relying on the advice of Counsel;

(b) setting forth any adjustments resulting from the application of the provisions of Article Three;

(c) adding hereto such additional covenants and enforcement provisions as in the opinion of Counsel are necessary or advisable, and are not in the opinion of the Warrant Agent relying on Counsel prejudicial to the interest of any of the Warrantholders;

(d) giving effect to any Extraordinary Resolution passed as provided in Article Five;

(e) making any modification in the form of Warrant Certificate which, in the opinion of the Warrant Agent, does not affect the substance thereof;

(f) making any additions to, deletions from or alterations of the provisions of this Indenture which, in the opinion of the Warrant Agent relying on Counsel, do not in any way prejudice or adversely affect the rights or interests of any of the Warrantholders and are necessary or advisable in order to incorporate, reflect or comply with any Applicable Legislation; and

(g) for any other purpose not inconsistent with the terms of this Indenture, including the correction or rectification of any ambiguities, defective provisions, errors or omissions herein, provided that in the opinion of the Warrant Agent the rights of the Warrant Agent or of any of the Warrantholders are in no way prejudiced thereby.

Notwithstanding anything to the contrary in this Indenture, no supplement or amendment to the terms of the Warrants or to this Indenture may be made without the consent of the TSX-V for so long as the Warrants or the Common Shares are listed on the TSX-V.

6.02 Correction of Manifest Errors

The Corporation and the Warrant Agent may correct typographical and clerical errors in this Indenture provided that such correction shall in the opinion of the Warrant Agent in no way prejudice the rights of the Warrant Agent or any of the Warrantholders hereunder, and the Corporation and the Warrant Agent may execute and deliver all such documents as may be necessary to correct such errors.

6.03 Amending Adjustment Provisions

The Corporation and the Warrant Agent may modify the adjustments resulting from the application of the provisions of Article Three if a modification is required as a result of any approval or requirement of any securities regulatory authorities including the TSX-V (or any other exchange on which the Common Shares are listed and posted for trading, or quoted, as the case may be) and the Corporation and the Warrant Agent may execute and deliver such documents as may be necessary to effect the modification.

6.04 Successor Companies

In the case of the consolidation, merger or transfer of the assets of the Corporation as an entirety or substantially as an entirety to another corporation ("**successor corporation**"), the successor corporation resulting from the consolidation, merger or transfer (if not the Corporation) will be bound by the provisions hereof and for the due and punctual performance and observance of each and every covenant and obligation contained in this Indenture to be performed by the Corporation and, if requested by the Warrant Agent, will by supplemental indenture satisfactory in form to the Warrant Agent and executed and delivered to the Warrant Agent, expressly assume those obligations.

ARTICLE SEVEN — ENFORCEMENT

7.01 Suits by Warrantholders

All or any of the rights conferred on any holder by the terms of the Warrants or of this Indenture may be enforced by such holder by appropriate legal proceedings but without prejudice to the right which is hereby conferred on the Warrant Agent to proceed in its own name to enforce each and every provision herein contained for the benefit of the holders.

7.02 Warrant Agent May Institute Proceedings

The Warrant Agent shall have the power at any time and from time to time to institute and to maintain such suits and proceedings as it may be advised shall be necessary or advisable to preserve and protect its interests an the interests of the Warrantholders.

7.03 Immunity of Shareholders, etc

Subject to applicable law, the Warrant Agent and, by acceptance of the Warrant Certificate and as part of the consideration for the issue of the Warrants, the Warrantholders hereby waive and release any right, cause of action or remedy now or hereafter existing in any jurisdiction against any Person in its capacity as an incorporator or any past, present or future shareholder, director, officer, employee or agent of the Corporation for the creation and issue of the Common Shares pursuant to any Warrant or any covenant, agreement, representation or warranty by the Corporation herein or in the Warrant Certificates contained.

7.04 Limitation of Liability

The obligations hereunder are not Personally binding on, nor shall resort hereunder be had to, the private property of, any past, present or future director, shareholder, officer, employee or agent of the Corporation, but only the property of the Corporation shall be bound in respect hereof.

ARTICLE EIGHT — CONCERNING THE WARRANT AGENT

8.01 Rights and Duties of Warrant Agent

(1) In the exercise of the rights, duties and obligations prescribed or conferred by the terms of this Indenture, the Warrant Agent will act honestly and in good faith with a view to the best interests of the Warrantholders and will exercise that degree of care, diligence and skill that a reasonably prudent Warrant Agent would exercise in comparable circumstances.

(2) No provision of this Indenture will be construed to relieve the Warrant Agent from liability for its own negligent act, negligent failure to act, wilful misconduct or bad faith.

(3) The obligation of the Warrant Agent to commence or continue any act, action or proceeding for the purpose of enforcing any rights of the Warrant Agent or the Warrantholders hereunder shall be conditional upon the Warrantholders furnishing, when required by notice in writing by the Warrant Agent, sufficient funds to commence or continue such act, action or proceeding and an indemnity reasonably satisfactory to the Warrant Agent to protect and hold harmless the Warrant Agent against the costs, charges and expenses and liabilities to be incurred thereby and any loss and damage it may suffer by reason thereof.

(4) No provision of this Indenture shall require the Warrant Agent to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties or in the exercise of any of its rights or powers unless funded and indemnified as aforesaid.

(5) The Warrant Agent may, before commencing or at any time during the continuance of any such act, action or proceeding require the Warrantholders at whose instance it is acting to deposit with the Warrant Agent the Warrant Certificates held by them, for which Warrant Certificates the Warrant Agent shall issue receipts.

8.02 Evidence, Experts and Advisors

(1) In addition to the reports, certificates, opinions and other evidence required by this Indenture, the Corporation will furnish to the Warrant Agent such additional evidence of compliance with any provision hereof, and in such form, as is prescribed by Applicable Legislation or as the Warrant Agent reasonably requires by written notice to the Corporation.

(2) In the exercise of any right or duty hereunder the Warrant Agent, if it is acting in good faith, may act and rely, as to the truth of any statement or the accuracy of any opinion expressed therein, on any affidavit, statutory declaration, opinion, report, certificate or other evidence furnished to the Warrant Agent pursuant to a provision hereof or of Applicable Legislation or pursuant to a request of the Warrant Agent, if the evidence complies with Applicable Legislation and the Warrant Agent examines the evidence and determines that it complies with the applicable requirements of this Indenture.

(3) Whenever Applicable Legislation requires that evidence referred to in subsection 8.02(a) be in the form of a statutory declaration, the Warrant Agent may accept the statutory declaration in lieu of a certificate of the Corporation required by any provision hereof.

(4) Any statutory declaration may be made by one or more of the chairman, president or secretary of the Corporation.

(5) Proof of the execution of an instrument in writing, including a Warrantholders' request, by a Warrantholder may be made by the certificate of a notary public, or other officer with similar powers, that the Person signing the instrument acknowledged to him the execution thereof, or by an affidavit of a witness to the execution, or in any other manner that the Warrant Agent considers adequate.

(6) The Warrant Agent may employ or retain such counsel as it reasonably requires for the purpose of determining and discharging its duties hereunder and may pay reasonable remuneration for all services so performed by any of them, without taxation of costs of any counsel, and will not be responsible for any misconduct or negligence on the part of any of them who has been selected with due care by the Warrant Agent. Any remuneration so paid by the Warrant Agent shall be repaid to the Warrant Agent in accordance with the provisions of Article Seven.

(7) The Warrant Agent may act and rely and shall be protected in acting and relying upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, letter, telegram, cablegram or other paper document believed by it to be genuine and to have been signed, sent or presented by or on behalf of the proper party or parties.

(8) The Warrant Agent may act and rely and shall be protected in acting and relying in good faith on the opinion or advice of or information obtained from any counsel, accountant, appraiser, engineer or other expert or advisor, whether retained or employed by the Corporation or by the Warrant Agent, in relation to any matter arising in the administration of its duties and obligations hereof.

8.03 Documents, Moneys, etc. Held by Warrant Agent

(1) Any security, document of title or other instrument that may at any time be held by the Warrant Agent subject to the duties and obligations hereof may be placed in the deposit vaults of the Warrant Agent or of any Schedule "1" Canadian chartered bank or deposited for safekeeping with the bank.

(2) Unless herein otherwise expressly provided, any money so held pending the application or withdrawal thereof under any provision of this Indenture may be deposited in the name of the Warrant Agent in any Schedule "1" Canadian chartered bank at the rate of interest (if any) then current on similar deposits.

The Warrant Agent may retain any cash balance held in connection with this Indenture and may, but need not, hold the same in its deposit department or the deposit department of one of its Affiliates (as defined below); but the Warrant Agent and its Affiliates shall not be liable to account for any profit to the Corporation or any other Person or entity other than at a rate, if any, established from time to time by the Warrant Agent or its Affiliates.

For the purpose of this Section, "**Affiliates**" means affiliated companies within the meaning of the *Canada Business Corporations Act* ("**CBCA**").

(3) Unless the Corporation is in default hereunder, all interest or other income received by the Warrant Agent in respect of deposits and investments will belong to the Corporation.

8.04 Action by Warrant Agent to Protect Interests

The Warrant Agent shall have power to institute and to maintain such actions and proceedings as it may consider necessary or expedient to preserve or protect its interests and the interests of the Warrantholders.

8.05 Warrant Agent not Required to Give Security

The Warrant Agent shall not be required to give any bond or security in respect of the execution of the duties and obligations of this Indenture or otherwise in respect of the premises.

8.06 Protection of Warrant Agent

By way of supplement to the provisions of any law for the time being relating to the Warrant Agent:

(a) the Warrant Agent shall not be liable for or by reason of any statements of fact or recitals in this Indenture (except the representation contained in section 8.08 and by virtue of the countersignature of the Warrant Agent on the Warrant Certificates) or required to verify the same, but all such statements or recitals are and shall be deemed to be made by the Corporation;

(b) the Warrant Agent shall not be bound to give notice to any Person or Persons of the execution hereof;

(c) the Warrant Agent shall not incur any liability or responsibility whatever or be in any way responsible for the consequence of any breach on the part of the Corporation of any obligation herein contained or of any acts of the Directors, officers, employees or agents of the Corporation; and

(d) the Warrant Agent shall not be bound to give any notice or to do or take any act, action or proceeding by virtue of the powers conferred on it hereby unless and until it shall have been required so to do under the terms hereof nor shall the Warrant Agent be required to take notice of any default of the Corporation hereunder unless and until notified in writing of the default (which notice must specify the nature of the default) and, in the absence of that notice, the Warrant Agent may for all purposes hereunder conclusively assume that no default by the Corporation hereunder has occurred. The giving of or failure to give any notice shall in no way limit the discretion of the Warrant Agent hereunder as to whether any action is required to be taken in respect of any default hereunder.

8.07 Replacement of Warrant Agent

(1) The Warrant Agent may resign its duties and obligations and be discharged from all further duties and liabilities hereunder, except as provided in this subsection, by giving to the Corporation and the Warrantholders not less than thirty (30) days' notice in writing or, if a new Warrant Agent has been appointed, such shorter notice as the Corporation accepts as sufficient.

(2) If the Warrant Agent so resigns or is dissolved, becomes bankrupt, goes into liquidation or otherwise becomes incapable of acting hereunder, the Corporation will forthwith appoint a new Warrant Agent unless a new Warrant Agent has already been appointed by the Warrantholders.

(3) Failing appointment by the Corporation, the retiring Warrant Agent at the expense of the Corporation or any Warrantholder may apply to a court of competent jurisdiction in the Province of Ontario (the "**Court**") on such notice as the Court directs, for the appointment of a new Warrant Agent.

(4) Any new Warrant Agent so appointed by the Corporation or by the Court will be subject to removal as aforesaid by the Warrantholders.

(5) Any new Warrant Agent appointed under any provision of this section must be a corporation authorized to carry on the business of a trust company in the Province of Ontario and, if required by the Applicable Legislation, in any other province.

(6) On any appointment the new Warrant Agent will be vested with the same powers, rights, duties and responsibilities as if it had been originally named herein as Warrant Agent without any further assurance, conveyance, act or deed, but there will be immediately executed, at the expense of the Corporation, all such conveyances or other instruments as, in the opinion of Counsel, are necessary or advisable for the purpose of assuring the powers, rights, duties and responsibilities of the new Warrant Agent, provided that, any resignation or removal of the Warrant Agent and the appointment of a successor trustee shall have executed an appropriate instrument accepting such appointment and, at the request of the Corporation, the Warrant Agent, upon payment of its outstanding remuneration and expenses, shall execute and deliver to the successor trustee an appropriate instrument transferring to such successor trustee all rights and powers of the Warrant Agent hereunder.

(7) On the appointment of a new Warrant Agent, the Corporation will promptly give notice thereof to the Warrantholders.

(8) A corporation into or with which the Warrant Agent is merged or consolidated or amalgamated, or a corporation succeeding to the trust business of the Warrant Agent, will be the successor to the Warrant Agent hereunder without any further act on its part or on the part of any party hereto if the corporation would be eligible for appointment as a new Warrant Agent under subsection (6).

(9) A Warrant Certificate certified but not delivered by a predecessor Warrant Agent may be delivered by the new or successor Warrant Agent in the name of the predecessor Warrant Agent or successor Warrant Agent.

8.08 Conflict of Interest

(1) The Warrant Agent represents to the Corporation that at the time of the execution and delivery hereof no material conflict of interest exists between its role as Warrant Agent under this Indenture and its role in any other capacity and if a material conflict of interest arises hereafter it will, within 30 days after ascertaining that it has a material conflict of interest, either eliminate the conflict of interest or resign its duties and obligations hereunder in favour of a successor or trustee approved by the Corporation. If any such material conflict of interest exists or hereafter shall exist, the validity and enforceability of this Indenture and the Warrants shall not be affected in any manner whatsoever.

(2) Subject to subsection (1), the Warrant Agent in its Personal or any other capacity may buy, lend on and deal in securities of the Corporation and generally may contract and enter into financial transactions with the Corporation without being liable to account for any profit made thereby.

8.09 Acceptance of Duties and Obligations

The Warrant Agent hereby accepts the duties and obligations in this Indenture declared and provided for and agrees to perform them on the terms and conditions herein set forth. The Warrant Agent accepts the duties and responsibilities under this Indenture declared and provide for and agrees to perform them on the terms and conditions herein set forth, solely as a custodian, bailee and agent. No trust is intended to be, or is or will be, created hereby and the Warrant Agent shall owe no duties hereunder as a trustee.

8.10 Indemnity

The Corporation hereby indemnifies and saves harmless the Warrant Agent and its officers, directors, employees and agents from and against any and all liabilities, losses, costs, claims, actions or demands whatsoever brought against the Warrant Agent which it may suffer or incur as a result of or arising out of the performance of its duties and obligations under this Indenture, including any and all legal fees and disbursements of whatever kind or nature, save only in the event of the negligence, wilful misconduct or bad faith of the Warrant Agent. It is understood and agreed that this indemnification shall survive the termination or discharge of this Indenture or the resignation of the Warrant Agent.

8.11 Warrant Agent not Required to Give Security

The Warrant Agent will not be required to give any bond or security in respect of the execution of the trusts and powers on this Indenture or otherwise in respect of the premises.

8.12 Warrant Agent not Appointed Receiver

The Warrant Agent and any Person related to the Warrant Agent will not be appointed a receiver and manager or liquidator of all or any part of the assets or undertaking of the Corporation.

ARTICLE NINE — GENERAL

9.01 Satisfaction and Discharge of Indenture

On the earlier of

(i) the date by which there has been delivered to the Warrant Agent for exercise or destruction all Warrant Certificates theretofore certified hereunder, or

(ii) the 61st day following the latest Warrant Expiry Date,

and if all Common Shares required to be issued in compliance with the provisions hereof have been issued and delivered hereunder, this Indenture will cease to be of further effect and the Warrant Agent, on demand of and at the cost and expense of the Corporation and on delivery to the Warrant Agent of a certificate of the Corporation stating that all conditions precedent to the satisfaction and discharge of this Indenture have been complied with and on payment to the Warrant Agent of the fees and other remuneration payable to the Warrant Agent, will execute proper instruments acknowledging satisfaction of and discharging this Indenture.

9.02 Sole Benefit of Parties and Warrantholders

Nothing in this Indenture expressed or implied, will give or be construed to give to any Person other than the parties hereto and the Warrantholders, as the case may be, any legal or equitable right, remedy or claim under this Indenture, or under any covenant or provision herein contained, all covenants and provisions being for the sole benefit of the parties hereto and the Warrantholders.

9.03 Discretion of Directors

Any matter provided herein to be determined by the Directors will be determined by the Directors in their sole discretion, and a determination so made will be conclusive.

9.04 Counterparts and Formal Date

This Indenture may be executed in several counterparts, each of which when so executed will be deemed to be an original, and the counterparts together will constitute one and the same instrument and notwithstanding the date of their execution will be deemed to be dated as of •, 2009.

9.05 Governing Law

This Indenture shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

9.06 Enurement

This Indenture shall enure to the benefit of and be binding upon the Corporation and the Warrant Agent and their respective successors and permitted assigns. No party to this Indenture may assign or delegate all or any portion of its rights, obligations or liabilities under this Indenture without the prior written consent of the other party to this Indenture.

9.07 Currency

Unless otherwise indicated, all dollar amounts referred to in this Indenture are in lawful money of Canada.

IN WITNESS WHEREOF the parties hereto have executed these presents under their respective seals and the hands of their proper officers in that behalf.

VUZIX CORPORATION

By: _____
Authorized Signing Officer

COMPUTERSHARE TRUST COMPANY OF CANADA

By: _____
Authorized Signing Officer

By: _____
Authorized Signing Officer

SCHEDULE 1
FORM OF WARRANT CERTIFICATE

[The following legends shall be include on Warrant Certificates representing up to • Compensation Options, if and only if such Compensation Options are issued within 4 months of the Closing Date]: ""UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE •, 2010." .**[NTD: Date that is four months and one day from Closing Date to be inserted.]**

"WITHOUT PRIOR WRITTEN APPROVAL OF THE TSX VENTURE EXCHANGE AND COMPLIANCE WITH ALL APPLICABLE SECURITIES LEGISLATION, THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, TRANSFERRED, HYPOTHECATED BY THIS CERTIFICATE, MAY NOT BE SOLD, TRANSFERRED, HYPOTHECATED OR OTHERWISE TRADED ON OR THROUGH THE FACILITIES OF THE TSX VENTURE EXCHANGE OR OTHERWISE IN CANADA OR TO THE BENEFIT OF A CANADIAN RESIDENT BEFORE •, 2010". "**[NTD: Date that is four months and one day from Closing Date to be inserted.]**

WARRANT CERTIFICATE

VUZIX CORPORATION

No. 2009-●

<*> WARRANTS entitling the holder to acquire, subject to adjustment, one Common Share of Vuzix Corporation for each Warrant represented hereby, subject to adjustment in certain events

THIS CERTIFICATE IS TO CERTIFY that for value received _____ (herein referred to as the "**Holder**" or the "**Warrantholder**"), is the registered holder of the number of Warrants of Vuzix Corporation (the "**Corporation**") stated above and is entitled to acquire for each Warrant represented hereby, subject to adjustment one fully paid and non-assessable share of common stock in the capital of the Corporation (a "**Common Share**") at an exercise price of CDN$● per Common Share, all in the manner and subject to the restrictions and adjustments set forth in the Warrant Indenture (as hereinafter defined), at any time prior to 5:00 pm (Toronto time) on ●, 2010; provided that if at any time the Current Market Price (as defined in the Warrant Indenture) of the Common Shares exceeds CDN$ ● **[NTD: 250% of initial offering price of the Units],** the Corporation shall have the right and option, exercisable at its sole discretion, to accelerate such date 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 (such time being hereinafter referred to as the "**Warrant Expiry Time**"").

The Warrants represented by this Certificate are issued or issuable in fully registrable form only under the provisions of an indenture (which indenture together with all other instruments ancillary thereto is referred to herein as the "**Warrant Indenture**") dated as of ●, 2009 between the Corporation and Computershare Trust Company of Canada (the "**Warrant Agent**"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Warrant Indenture. Reference is hereby made to the Warrant Indenture for a full description of the rights of the Holders of the Warrants, the Corporation and the Warrant Agent in respect thereof, and the terms and conditions upon which the Warrants evidenced hereby are issued and held, all to the same effect as if the provisions of the Warrant

Indenture were herein set forth. By acceptance of this Certificate, the holder assents to all provisions of the Warrant Indenture. To the extent that the terms and conditions set forth in this Certificate conflict with the terms and conditions of the Warrant Indenture, the Warrant Indenture shall prevail. The Corporation will furnish to the holder of this Certificate, upon request and without charge, a copy of the Warrant Indenture.

Upon exercise, the Warrants so exercised will be void and of no value or effect.

The right to acquire Common Shares may only be exercised by the Holder within the time set forth above by:

(1) duly completing and executing the Exercise Form attached hereto; and

(2) surrendering this Certificate, together with cash or a certificate cheque, bank draft or money order in lawful money of Canada payable to or to the order of the Corporation at par in Toronto, Ontario in an amount equal to the aggregate Exercise Price of the Common Shares to be purchased hereunder, to the Warrant Agent at the principal transfer offices of the Warrant Agent in the city of Toronto, Ontario.

If any Common Shares issuable upon the exercise of Warrants require the maintenance of a current Registration Statement, with respect to such Shares under the Securities Act of 1933 ,as amended (the "U.S. Securities Act"), in no event shall such Common Shares be issued unless the Common Shares are registered under the U.S. Securities Act pursuant to an effective Registration Statement and the Corporation causes to be delivered to the holder a U.S. Prospectus; *provided, however that*, if the Registration Statement ceases to be effective, prior to the Expiry Time and for so long as the Registration Statement is not effective, subject to applicable law, a holder of any Warrant may, at its option: (i) exercise such Warrants, if the holder is not a U.S. Purchaser and the holder delivers a duly completed and executed Warrant Exercise Certification (in the form attached as Schedule B to the Indenture) certifying that the holder: (A)(1) is not in the United States; (2) is not a U.S. Person and is not exercising the Warrants for, or on behalf or benefit of, a U.S. Person or person in the United States; (3) did not execute or deliver the Warrant Exercise Form in the United States; (4) agrees not to engage in hedging transactions with regard to the Securities prior to the expiration of the one-year distribution compliance period set forth in Rule 903(b)(3) of Regulation S; (5) acknowledges that the Common Shares issuable upon exercise of the Warrants are "restricted securities" as defined in Rule 144 of the U.S. Securities Act and upon the issuance thereof, and until such time as the same is no longer required under the applicable requirements of the U.S. Securities Act or applicable U.S. state laws and regulations, the certificates representing the Common Shares will bear a restrictive legend; and (6) acknowledges that the Corporation shall refuse to register any transfer of the Securities not made in accordance with the provisions of Regulation S, pursuant to registration under the U.S. Securities Act, or pursuant to an available exemption from registration under the U.S. Securities Act; and (B) neither the Corporation nor the holder has engaged in any "directed selling efforts" (as defined in Regulation S) in the United States; or (ii) exercise such Warrants in a transaction that does not require registration under the U.S. Securities Act or any applicable U.S. state laws and regulations and the holder has (a) delivered a duly completed and executed Warrant Exercise Certification (in the form attached hereto as Schedule 2) certifying that the holder is exercising the Warrants pursuant to such exemptions and (b) furnished to the Corporation, prior to such exercise, an opinion of counsel of recognized standing in form and substance satisfactory to the Corporation to such effect. If no Registration Statement is effective at any time when any Warrant is exercised, the holder shall deliver a completed Warrant Exercise Certification (attached to the Indenture as Schedule 2) to the Warrant Agent and the Corporation.

Except where otherwise expressly provided, the Warrants represented by this Certificate shall be deemed to be surrendered only upon Personal delivery hereof or, if sent by mail or other means of transmission, upon actual receipt thereof by the Warrant Agent at the office referred to above.

Upon surrender of these Warrants, the Person or Persons in whose name or names the Common Shares issuable upon exercise of the Warrants are to be issued shall be deemed for all purposes (except as provided in the Warrant Indenture) to be the holder or holders of record of such Common Shares and the Corporation has covenanted that it will (subject to the provisions of the Warrant Indenture) cause a certificate or certificates representing the Common Shares to be delivered or mailed to the Person or Persons at the address or addresses specified in the Exercise Form within three Business Days.

In the event of any subdivision or consolidation of the Common Shares or any reclassification, capital reorganization, amalgamation or merger of the Corporation, the holders of Warrants shall, upon exercise of the Warrants following the occurrence of any of those events, be entitled to receive the same number and kind of securities that they would have been entitled to receive had they exercised their Warrants immediately prior to the occurrence of those events, provided that no fractional securities will be issued. The Warrantholder should refer to the Warrant Indenture which provides for adjustments in certain other events.

The terms and conditions relating to the Warrants and this Certificate may be modified, changed or added to in accordance with the provisions of the Warrant Indenture. The Warrant Indenture contains provisions making binding upon all holders of Warrants outstanding thereunder resolutions passed at meetings of such holders held in accordance with such provisions and instruments in writing signed by the holders entitled to acquire a specified majority of the Common Shares which may be acquired pursuant to the exercise of all of the then outstanding Warrants.

The holding of the Warrants evidenced by this Certificate shall not constitute, or be construed as conferring upon, the Holder any right or interest whatsoever as a shareholder of the Corporation except such rights as may be provided in the Warrant Indenture or in this Certificate.

At any time prior to the Warrant Expiry Time, the Holder of this Certificate may, upon compliance with the reasonable requirements of the Warrant Agent and the requirements contained in the Warrant Indenture and upon surrender of this Certificate, exchange this Certificate for another certificate or certificates entitling the Holder thereof to receive, in the aggregate, the same number of Common Shares as are issuable under this Certificate.

The Warrants evidenced by this Certificate may only be transferred upon due execution and delivery to the Warrant Agent of a Transfer Form in the form attached hereto and in compliance with all the conditions prescribed in the Warrant Indenture and compliance with such other reasonable requirements as the Warrant Agent may prescribe.

The holder acknowledges its consent and expressly requests that the Warrant Certificate be drawn up in the English language only. Le détenteur a expressément exigé que le certificat de bon de souscription soit rédigé en langue anglaise seulement.

This Warrant Certificate shall not be valid for any purpose until it has been certified by or on behalf of the Warrant Agent under the Warrant Indenture.

This Certificate shall be governed by and construed in accordance with the laws of Ontario and the federal laws of Canada applicable therein.

Time shall be of the essence hereof.

IN WITNESS WHEREOF the Corporation has caused this Warrant Certificate to be signed as of _____, 2009.

VUZIX CORPORATION

By: _____
Paul J. Travers
President and Chief Executive Officer

This Warrant Certificate is one of the Warrant Certificates referred to in the Warrant Indenture.

COMPUTERSHARE TRUST COMPANY OF CANADA

By: _____
Authorized Officer

EXERCISE FORM

TO: Vuzix Corporation
c/o Computershare Trust Company of Canada
100 University Avenue, 8th Floor
Toronto, Ontario
M5J 2Y1

Attention: Manager, Corporate Trust
Fax: 416-361-0470

The undersigned Holder of the Warrants evidenced by the within Certificate hereby irrevocably subscribes for, and exercises his right to be issued, the number of Common Shares set forth below, such Common Shares being issuable upon exercise of such Warrants pursuant to the terms specified in the said Warrants and the Warrant Indenture.

The undersigned hereby irrevocably directs that the Common Shares be issued and delivered as follows:

Name(s) in full	Address(es) (include Postal Code)	Number(s) of Common Shares
	TOTAL	

(Please print full name in which certificate(s) are to be issued. If any of the Common Shares are to be issued to a Person or Persons other than the Warrantholder, the Warrantholder must pay to the Warrant Agent all requisite taxes or other government charges.)

Dated this _____ day of _____, _____.

_____
Signature Guarantee (see instruction 2)

_____
Signature of Registered Holder

_____
Name of Registered Holder

☐ Please check box if certificates representing these Common Shares are to be delivered at the office of the Warrant Agent where this Warrant Certificate is surrendered, failing which the certificates will be mailed to the address(es) set forth above.

Instructions:

The Holder may exercise its right to receive Common Shares by completing this form and surrendering this form and the Warrant Certificate representing the Warrants being exercised to the Warrant Agent at its principal transfer offices in Toronto, Ontario. Certificates for Common Shares will be delivered or mailed within five Business Days after the exercise of the Warrants.

If the Exercise Form indicates that Common Shares are to be issued to a Person or Persons other than the registered holder of the Certificate, the signature on this Exercise Form must be guaranteed by a Schedule 1 major chartered bank company or a member of an acceptable medallion guarantee program. The Guarantor must affix a stamp bearing the actual words "Signature Guaranteed". Signature guarantees are not accepted from Treasury Branches or credit unions unless they are members of the Stamp Medallion Program. In the United States, signature guarantees must be done by members of the "Medallion Signature Guarantee Program" only.

If the Exercise Form is signed by an agent, executor, administrator, curator, guardian, attorney, officer of a corporation or any Person acting in a fiduciary or representative capacity, the certificate must be accompanied by evidence of authority to sign satisfactory to the Warrant Agent and the Corporation.

If the Holder exercises its right to receive Common Shares prior to the date which is four months plus one day from the issuance date of the Warrants, the Common Shares may be subject to a hold period and may be issued with a legend reflecting such hold period.

TRANSFER FORM

Any transfer of Warrants will require compliance with applicable securities legislation. Transferors and transferees are urged to contact legal counsel before effecting any such transfer.

FOR VALUE RECEIVED, the undersigned hereby sells, transfers and assigns to _____, _____ Warrants represented by this Warrant Certificate and does hereby irrevocably appoint _____ as its attorney with full power of substitution to transfer the said Warrants on the appropriate register of the Warrant Agent.

DATED this _____ day of _____, _____.

_____ _____

Signature Guarantee Signature of Registered Holder

_____

Name of Registered Holder

Instructions:

1. Signature of the Warrantholder must be the signature of the registered holder appearing on the face of this Warrant Certificate.
2. If this Transfer Form is signed by an agent, executor, administrator, curator, guardian, attorney, officer of a corporation or any Person acting in a fiduciary or representative capacity, the Certificate must be accompanied by evidence of authority to sign satisfactory to the Warrant Agent and the Corporation, acting reasonably.
3. The signature on this Transfer Form must be guaranteed by a Schedule 1 major chartered bank/trust company or a member of an acceptable medallion guarantee program. The guarantor must affix a stamp bearing the actual words "Signature Guaranteed". Signature guarantees are not accepted from Treasury Branches or credit unions unless they are members of the Stamp Medallion Program. In the United States, signature guarantees must be done by members of the "Medallion Signature Guarantee Program" only.
4. Warrants shall only be transferable in accordance with applicable laws and the applicable provisions of the Warrant Indenture.

[**NTD: Any applicable US restrictions to be added.]**

SCHEDULE 2
WARRANT EXERCISE CERTIFICATION
(TO BE COMPLETED ONLY IF A REGISTRATION STATEMENT IS NOT EFFECTIVE)

To: VUZIX CORPORATION
And To: COMPUTERSHARE TRUST COMPANY OF CANADA

The undersigned holder of the within Warrant Certificate, pursuant to the Warrant Indenture mentioned therein, hereby exercises certain Warrants (the "Exercised Warrants") evidenced thereby and hereby subscribes for a number of Common Shares of VUZIX CORPORATION equal to such number of Common Shares or number or amount of other securities or property, or combination thereof, to which such exercise entitles him under the provisions of the Warrant Indenture at an aggregate price equal to the product of the Exercise Price and the number of Exercised Warrants, and on the terms specified in such Warrant Certificate and the Warrant Indenture, and in payment therefor, delivers herewith a bank draft, certified cheque or money order payable to VUZIX CORPORATION. Capitalized terms not defined herein shall have the definitions set forth in the Warrant Indenture.

The undersigned represents that it (A) has had access to such current public information concerning VUZIX CORPORATION as it considered necessary in connection with its investment decision and (B) understands that the securities issuable upon exercise hereof have not been registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act").

The undersigned represents and warrants that it: [**check one only**]

☐ A. is not a U.S. Purchaser and it (1) is not in the United States; (2) is not a U.S. Person and is not exercising the Warrants for, or on behalf or benefit of, a U.S. Person or person in the United States; (3) did not execute or deliver the Warrant Exercise Form in the United States; (4) agrees not to engage in hedging transactions with regard to the Securities prior to the expiration of the one-year distribution compliance period set forth in Rule 903(b)(3) of Regulation S; (5) acknowledges that the Common Shares issuable upon exercise of the Warrants are "restricted securities" as defined in Rule 144 of the U.S. Securities Act and upon the issuance thereof, and until such time as the same is no longer required under the applicable requirements of the U.S. Securities Act or applicable U.S. state laws and regulations, the certificates representing the Common Shares will bear a restrictive legend; and (6) acknowledges that the Corporation shall refuse to register any transfer of the Securities not made in accordance with the provisions of Regulation S, pursuant to registration under the U.S. Securities Act, or pursuant to an available exemption from registration under the U.S. Securities Act; and (B) it holder has not engaged in any "directed selling efforts" (as defined in Regulation S) in the United States.

☐ B. the undersigned is delivering a written opinion of U.S. Counsel or a written confirmation from the Corporation to the effect that the Warrants and the Common Shares to be delivered upon exercise hereof have been registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or are exempt from registration thereunder.

The undersigned holder understands that the certificate representing the Corporation's Common Shares issued upon exercise of this Warrant will bear a legend restricting the transfer without registration under the U.S. Securities Act and applicable state securities laws substantially the form set forth in Section 3.01(3) of the Warrant Indenture.

Name:
Nome: _____
Please print or type name and address (including postal code)

Address:
Adresse: _____

Number of Warrants being Exercised: _____

_____

DATED this _____ day of _____.

Signature guaranteed by:

_____
Name of registered holder (please print) —

_____
Signature of or on behalf of registered holder

_____
Office, Title or other Authorization
(if holder not an individual)

Exhibit 10.21

ESCROW AGREEMENT

THIS ESCROW AGREEMENT (as the same may be amended or modified from time to time pursuant hereto, this "Escrow Agreement") is made and entered into as of November ___, 2009, by and among Vuzix Corporation, a Delaware corporation ("Issuer"), Canaccord Capital Corporation ("Canaccord"), Canaccord Adams Inc., Bolder Investment Partners, Ltd. ("Bolder") and Lighthouse Financial Group LLC (collectively, the "Offering Agents")(the Issuer and the Offering Agents are sometimes referred to individually as a "Party" or collectively as the "Parties"), and JPMorgan Chase Bank, National Association (the "Escrow Agent").

WHEREAS, the Issuer has filed with the U.S. Securities and Exchange Commission (the "SEC") a Registration Statement on Form S-1 (File No. 333-160417) (as amended from time to time, the "Registration Statement") registering under the Securities Act of 1933, as amended, the Issuer's sale to the public of up to 50,000,000 units ("Units"), each Unit consisting of one share of the Issuer's common stock, par value $0.001 per share, and one-half of one common stock purchase warrant (the "Offering");

WHEREAS, the Issuer has also filed a preliminary prospectus relating to the Offering with the Ontario Securities Commission (the "OSC");

WHEREAS, the Offering shall be made on a best-efforts basis through a syndicate co-led by Canaccord and Bolder and through certain subagents;

WHEREAS, the closing of the Offering (the "Closing") is subject to the Issuer's receipt of minimum gross proceeds from the Offering of at least Cdn$6,000,000 (the "Minimum Dollar Amount") and is subject to a maximum of Cdn$12,500,000 (the "Maximum Dollar Amount");

WHEREAS, in order to purchase Units, a purchaser must deliver the full amount of its purchase price, in US or Canadian dollars, to the Offering Agents (collectively, the "Payment");

WHEREAS, the Parties have agreed that the Payments made by prospective purchasers of Units will be refunded to such prospective purchasers if the Closing has not occurred within 90 days of the date on which the Registration Statement is declared effective by the SEC; and

WHEREAS, in compliance with Rule 15c2-4 under the Securities Exchange Act of 1934, as amended, the Parties desires to establish an escrow in which funds received from purchasers of Units will be deposited until the Closing, and the Escrow Agent is willing to serve as Escrow Agent upon the terms and conditions herein set forth.

NOW THEREFORE, in consideration of the foregoing and of the mutual covenants hereinafter set forth, the parties hereto agree as follows:

1. Appointment.

1.1. The Parties hereby appoint the Escrow Agent as their escrow agent for the purposes set forth herein, and the Escrow Agent hereby accepts such appointment under the terms and conditions set forth herein. The Escrow Agent is authorized

and regulated by the Financial Services Authority in the United Kingdom.

1.2. Each of the Offering Agents hereby authorizes Canaccord to act on its behalf in connection with the matters set out herein.

2. Establishment of the Escrow Account.

2.1. The parties hereto shall establish an escrow account at the London branch of the Escrow Agent, and bearing the designation "Escrow Account for Vuzix Corporation IPO" (the "Escrow Account").

2.2. On or before the date of the initial deposit in the Escrow Account pursuant to this Agreement, Canaccord shall notify the Escrow Agent in writing of the commencement date of the Offering (the "Commencement Date"). The Commencement Date shall be no earlier than the first date on which the Registration Statement has been declared effective by the SEC and the OSC has issued a receipt in accordance with Multilateral Instrument 11-102 – Passport System of the Canadian Securities Administrators and National Policy 11-202 – Process for Prospectus Reviews in Multiple Jurisdictions of the Canadian Securities Administrators evidencing that receipts for the final Canadian prospectus relating to the Offering have been issued for each province of Canada except Quebec. The Escrow Agent shall not accept any amounts for deposit in the Escrow Account prior to its receipt of such notification.

2.3. The Offering shall continue for a period (the "Offering Period") from the Commencement Date through the 90th day after date on which the Registration Statement has been declared effective by the SEC. The last day of the Offering Period is referred to herein as the "Termination Date." Except as provided in Section 4.3 hereof, after the Termination Date, neither the Offering Agents nor the Issuer shall deposit, and the Escrow Agent shall not accept, any additional amounts representing payments by prospective purchasers. Canaccord shall provide written notice to the Escrow Agent as to the Termination Date.

3. Deposits in the Escrow Account.

3.1. All amounts received from prospective purchasers of the Units shall be deposited in the Escrow Account, which amounts shall be in the form of checks or wire transfers representing the payment of money. Wire transfers to the Escrow Account shall be sent in Canadian dollars pursuant to the following instructions:

Bank: Royal Bank of Canada, Toronto (ROYCCAT2)
Under direct SWIFT advice to JPMorgan Chase Bank, NA CHASGB2L
For the account of: JPMorgan Chase Bank, NA (CHASGB2L)
Account Number: 095912194132
For Further Credit To: JPM as EA for Vuzix Corp
Account Number: 40625901

3.2. Simultaneously with each deposit into the Escrow Account, the Offering Agent making such deposit (or the Issuer, if such deposit is made by the Issuer) shall inform the Escrow Agent in writing of the name and address of the prospective purchaser(s), the number of Units subscribed for by such purchaser(s), and the aggregate dollar amount of such subscription (collectively, the "Subscription Information").

3.3. The Escrow Agent shall not be required to accept any amounts representing payments by prospective purchasers except during the Escrow Agent's regular banking hours, which are 9:00 a.m. to 5:00 p.m. Eastern Time.

3.4. Amounts deposited in the Escrow Account that have cleared the banking system and have been collected by the Escrow Agent, together with any investment income or proceeds received by the Escrow Agent from the investment thereof from time to time pursuant to Section 3.7 below, are herein referred to as the "Fund." Amounts deposited in the Escrow Account that have not cleared the banking system are herein referred to as "uncollected amounts".

3.5. The Escrow Agent shall refund any portion of the Fund prior to disbursement of the Fund in accordance with Section 4 hereof upon the instructions in writing signed by both the Issuer and Canaccord.

3.6. If the Escrow Agent receives a deposit into the Escrow Account from an Offering Agent or any purchaser, on any business day prior to the later of the Termination Date or the last day of the Collection Period (consisting of the number of business days set forth on the Information Sheet), the Escrow Agent shall, upon the receipt of a direction (the "Investment Direction") of Canaccord and only upon such direction, invest the deposit in such investments as Canaccord may direct until the Escrow Agent disburses the Fund in accordance with Section 4 hereof. If the Escrow Agent receives a deposit into the Escrow Account from an Offering Agent or any purchaser together with an Investment Direction prior to 12:00 p.m. Eastern Time on any business day prior to the later of the Termination Date or the last day of the Collection Period, the Escrow Agent shall invest such amounts as so directed on the same day, and if it receives the deposit and Investment Direction after 12:00 p.m. Eastern Time it may, but is not obligated to, invest the deposit as so directed on the same day; provided, however, that the Escrow Agent shall invest the deposit as so directed no later than the next business day. The Escrow Agent shall have no responsibility to the purchaser, the Issuer or any Offering Agent for any loss upon any such investment (which losses, if incurred, shall be debited against the Escrow Account). The Escrow Agent shall have no responsibility or liability to any purchaser, the Issuer or the Offering Agents for the investment performance or for any failure of any investments.

3.7. All Canadian dollar deposits will be held in a non interest bearing account with the Escrow Agent's London Branch.

4. Disbursement from the Escrow Account.

4.1. Subject to Section 4.3 below, in the event that at 5:00 p.m. Eastern Time on the Termination Date the amount constituting the Fund shall be less than the Minimum Dollar Amount, as indicated by the Subscription Information submitted to the Escrow Agent, then the Escrow Agent shall promptly but in no event later than five (5) business days after the Termination Date refund to each prospective purchaser the amount of payment received from such purchaser which is then held in the Fund or which thereafter clears the banking system, together with any investment income received thereon, and the Escrow Agent shall notify the

Issuer and each Offering Agent of its distribution of the Fund. The Offering Agent and Issuer shall provide wire instructions via facsimile for each prospective purchaser.

4.2. Subject to Section 4.3 below, in the event that at any time up to 5:00 p.m. Eastern Time on the Termination Date, the amount constituting the Fund shall be at least equal to the Minimum Dollar Amount, as indicated by the Subscription Information submitted to the Escrow Agent, the Escrow Agent shall forthwith notify the Issuer and each Offering Agent of such fact in writing. The Escrow Agent shall hold the Fund until the Escrow Agent receives, at least one business day prior to the date on which the Fund is to be disbursed, instructions in writing signed by both the Issuer and Canaccord as to the disbursement of the Fund.

4.3. Subject to Section 4.4 below, in the event that at 5:00 p.m. Eastern Time on the Termination Date, the amount constituting the Fund (counting all amounts deposited in the Escrow Account from the Commencement Date) shall be greater than the Minimum Dollar Amount, as indicated by the Subscription Information submitted to the Escrow Agent, the Escrow Agent shall, on the Termination Date, notify the Issuer and the Offering Agents of such fact in writing. The Escrow Agent shall hold any portion of the Fund that has not previously been disbursed (in accordance with Section 4.2) until the Escrow Agent receives, at least one business day prior to the date on which such portion of the Fund is to be disbursed, instructions in writing signed by both the Issuer and Canaccord as to the disbursement thereof.

4.4. In the event that at any time up to 5:00 p.m. Eastern Time on the Termination Date, the amount constituting the Fund (counting all amounts deposited in the Escrow Account from the commencement date of the Offering Period) shall be at least equal to the Maximum Dollar Amount, as indicated by the Subscription Information submitted to the Escrow Agent, the Escrow Agent shall forthwith notify the Issuer and the Offering Agents of such fact in writing. The Escrow Agent shall hold the portion of the Fund that has not yet been disbursed (in accordance with Section 4.2) until the Escrow Agent receives, at least one business day prior to the date on which such portion of the Fund is to be disbursed, instructions in writing signed by both the Issuer and Canaccord as to the disbursement thereof.

4.5. In the event that at 5:00 p.m. Eastern Time on the Termination Date, the amount constituting the Fund (counting all amounts deposited in the Escrow Account from the commencement date of the Offering Period) shall be greater than the Maximum Dollar Amount, as indicated by the Subscription Information submitted to the Escrow Agent, the Escrow Agent shall notify in writing the Issuer and the Offering Agents of such fact forthwith following the Termination Date. The Escrow Agent shall hold the portion of the Fund that has not previously been disbursed (in accordance with Sections 4.2 and 4.5) until the Escrow Agent receives, at least one business day prior to the date on which such portion of the Fund is to be disbursed, instructions in writing signed by both the Issuer and Canaccord as to the disbursement thereof.

4.6. Upon disbursement of the Fund pursuant to the terms of this Section 4, the Escrow Agent shall be relieved of all further obligations and released from all liability under this Agreement. It is expressly agreed and understood that in no event shall the aggregate amount of payments made by the Escrow Agent exceed the amount of the Fund.

5. Escrow Agent.

5.1. The Escrow Agent shall have only those duties as are specifically and expressly provided herein, which shall be deemed purely ministerial in nature, and no other duties shall be implied. The Escrow Agent shall neither be responsible for, nor chargeable with, knowledge of, nor have any requirements to comply with, the terms and conditions of any other agreement, instrument or document between the Parties, in connection herewith, if any, including without limitation the agency agreement contemplated by that engagement letter dated as of June 24, 2009 by and among the Issuer, Canaccord and Bolder (the "Underlying Agreement"), nor shall the Escrow Agent be required to determine if any person or entity has complied with any such agreements, nor shall any additional obligations of the Escrow Agent be inferred from the terms of such agreements, even though reference thereto may be made in this Escrow Agreement. In the event of any conflict between the terms and provisions of this Escrow Agreement and those of the Underlying Agreement or any other agreement among the Parties, the terms and conditions of this Escrow Agreement shall control. The Escrow Agent may rely upon and shall not be liable for acting or refraining from acting upon any written notice, document, instruction or request furnished to it hereunder and believed by it to be genuine and to have been signed or presented by the proper Party or Parties without inquiry and without requiring substantiating evidence of any kind. The Escrow Agent shall be under no duty to inquire into or investigate the validity, accuracy or content of any such document, notice, instruction or request. The Escrow Agent shall have no duty to solicit any payments which may be due it or the Fund nor shall the Escrow Agent have any duty or obligation to confirm or verify the accuracy or correctness of any amounts deposited with it hereunder.

5.2. The Escrow Agent shall not be liable for any action taken, suffered or omitted to be taken by it in good faith except to the extent that a final adjudication of a court of competent jurisdiction determines that the Escrow Agent's gross negligence or willful misconduct was the primary cause of any loss to any Party. The Escrow Agent may execute any of its powers and perform any of its duties hereunder directly or through attorneys and shall be liable only for its gross negligence or willful misconduct (as finally adjudicated in a court of competent jurisdiction) in the selection of any such attorney. The Escrow Agent may consult with counsel, accountants and other skilled persons to be selected and retained by it. The Escrow Agent shall not be liable for any action taken, suffered or omitted to be taken by it in accordance with, or in reliance upon, the advice or opinion of any such counsel, accountants or other skilled persons. In the event that the Escrow Agent shall be uncertain or believe there is some ambiguity as to its duties or rights hereunder or shall receive instructions, claims or demands from any party hereto which, in its opinion, conflict with any of the provisions of this Escrow Agreement, it shall be entitled to refrain from taking any action and its sole obligation shall be to keep safely all property held in escrow until it shall be given a direction in writing by the Issuer and Canaccord which eliminates such ambiguity or uncertainty to the satisfaction of Escrow Agent or by a final and non-appealable order or judgment of a court of competent jurisdiction. The Parties agree to pursue any redress or recourse in connection with any dispute without making the Escrow Agent a party to the same. Anything in this Escrow Agreement to the contrary notwithstanding, in no event shall the Escrow Agent be liable for special, incidental, punitive, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Escrow Agent has been advised of the likelihood of such loss or damage and regardless of the form of action. Any liability of the Escrow Agent under this Escrow Agreement will be limited to the amount of fees paid to the Escrow Agent.

5.3. All amounts held by the Escrow Agent in the Escrow Account are held by the Escrow Agent in an account with itself as banker rather than as trustee, and therefore will not be held in accordance with the client money rules of the FSA (the Financial Services Authority, and any successor or replacement organisation, following amalgamation, merger or otherwise, recognised under the Financial Services and Markets Act 2000 (including any statutory modification or re-enactment thereof or any regulations or orders made thereunder) by which the Escrow Agent is for the time being regulated or authorised).

5.4. Any reference in this Agreement to the "FSA Rules" means the rules of the FSA as set out in the FSA's Handbook of Rules and Guidance as amended, varied or substituted from time to time. Where the Escrow Agent is for the time being subject to any FSA Rules in the provision of services pursuant to this Agreement (including without limitation, in relation to the appointment of agents) the rights and obligations of the Escrow Agent under the provisions of this Agreement shall be read and construed as subject to and permitted by such Rules, and the provisions of this Agreement shall be limited accordingly.

5.5. The person to whom the Escrow Agent owes the Fund pursuant to clause 2 is the customer of the Escrow Agent for the purposes of the FSA Rules (the "Customer"). For the purposes of the FSA Rules, the Escrow Agent shall treat the Customer as a professional client and, notwithstanding that the Customer may be acting as agent on behalf of another person, the Customer alone shall be treated as the Escrow Agent's customer. The Customer is required to notify the Escrow Agent immediately if at any time it considers that it would no longer fall within the definition of professional client for the purposes of the FSA Rules.

5.6. Nothing in the Agreement is intended to exclude or restrict any duty or liability of the Escrow Agent to the other parties hereto which the Escrow Agent is not permitted to exclude or restrict by the Financial Services and Markets Act 2000 or the FSA Rules.

6. Succession.

6.1. The Escrow Agent may resign and be discharged from its duties or obligations hereunder by giving 30 days advance notice in writing of such resignation to the Parties specifying a date when such resignation shall take effect. If the Issuer and Canaccord have failed to appoint a successor escrow agent prior to the expiration of 30 days following receipt of the notice of resignation, the Escrow Agent may petition any court of competent jurisdiction for the appointment of a successor escrow agent or for other appropriate relief, and any such resulting appointment shall be binding upon all of the parties hereto. Escrow Agent's sole responsibility after such 30 day notice period expires shall be to hold the Fund (without any obligation to reinvest the same) and to deliver the same to a designated substitute escrow agent, if any, or in accordance with the directions of a final order or judgment of a court of competent jurisdiction, at which time of delivery Escrow Agent's obligations hereunder shall cease and terminate, subject to the provisions of Sections 7 and 8 hereunder. The Escrow Agent shall have the right to withhold an amount equal to any amount due and owing to the Escrow Agent, plus any costs and expenses the Escrow Agent shall reasonably believe may be incurred by the Escrow Agent in connection with the termination of the Escrow Agreement.

6.2. Any entity into which the Escrow Agent may be merged or converted or with

which it may be consolidated, or any entity to which all or substantially all the escrow business may be transferred, shall be the Escrow Agent under this Escrow Agreement without further act.

7. Compensation and Reimbursement. Issuer agrees to (a) pay the Escrow Agent for the services to be rendered hereunder, which unless otherwise agreed in writing shall be as described in Schedule 2 attached hereto, and (b) pay or reimburse the Escrow Agent upon request for all expenses, disbursements and advances, including, without limitation reasonable attorney's fees and expenses, incurred or made by it in connection with the performance of this Escrow Agreement.

8. Indemnity. The Parties shall jointly and severally indemnify, defend and save harmless the Escrow Agent and its affiliates and their respective successors, assigns, directors, agents and employees (the "indemnitees") from and against any and all losses, damages, claims, liabilities, penalties, judgments, settlements, litigation, investigations, costs or expenses (including, without limitation, the fees and expenses of outside counsel)(collectively "Losses") arising out of or in connection with (a) the Escrow Agent's execution and performance of this Escrow Agreement, tax reporting or withholding, the enforcement of any rights or remedies under or in connection with this Escrow Agreement, or as may arise by reason of any act, omission or error of the indemnitee, except in the case of any indemnitee to the extent that such Losses are finally adjudicated by a court of competent jurisdiction to have been primarily caused by the gross negligence or willful misconduct of such indemnitee, or (b) its following any instructions or other directions, whether joint or singular, from the Parties as contemplated in this Agreement, except to the extent that its following any such instruction or direction is expressly forbidden by the terms hereof. The Parties hereto acknowledge that the foregoing indemnities shall survive the resignation, replacement or removal of the Escrow Agent or the termination of this Escrow Agreement.

9. Patriot Act Disclosure/Taxpayer Identification Numbers/Tax.

9.1. Patriot Act Disclosure. Section 326 of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA PATRIOT Act") requires the Escrow Agent to implement reasonable procedures to verify the identity of any person that opens a new account with it. Accordingly, the Parties acknowledge that Section 326 of the USA PATRIOT Act and the Escrow Agent's identity verification procedures require the Escrow Agent to obtain information which may be used to confirm the Parties identity including without limitation name, address and organizational documents ("identifying information"). The Parties agree to provide the Escrow Agent with and consent to the Escrow Agent obtaining from third parties any such identifying information required as a condition of opening an account with or using any service provided by the Escrow Agent.

9.2. Taxpayer Identification Numbers ("TINs").

(i) The Parties have provided the Escrow Agent with their respective fully executed Internal Revenue Service ("IRS") Form W-8, or W-9 and/or other required documentation. The Parties each represent that its correct TIN assigned by the IRS, or any other taxing authority, is set forth in the delivered forms.

(ii) In addition, all interest or other income earned under the Escrow Agreement shall be allocated to Issuer and reported, as and to the extent required by law, by the Escrow Agent to the IRS, or any other taxing authority, on IRS Form 1099 or 1042S (or other appropriate form) as income earned from the Fund by Issuer whether or not said income has been distributed during such year. Any other tax returns required to be filed will be prepared and filed by Issuer and/or Offering Agents with the IRS and any other taxing authority as required by law. The Parties acknowledge and agree that Escrow Agent shall have no responsibility for the preparation and/or filing of any income, franchise or any other tax return with respect to the Fund or any income earned by the Fund. The Parties further acknowledge and agree that any taxes payable from the income earned on the investment of any sums held in the Escrow Account shall be paid by Issuer. In the absence of joint written direction from the Issuer and Canaccord, all proceeds of the Fund shall be retained in the Fund and reinvested from time to time by the Escrow Agent as provided in this Agreement. Escrow Agent shall withhold any taxes it deems necessary, including but not limited to required withholding in the absence of proper tax documentation, and shall remit such taxes to the appropriate authorities.

10. Notices. All communications hereunder shall be in writing and shall be deemed to be duly given and received: (a) upon delivery, if delivered personally, or upon confirmed transmittal, if by facsimile; (b) on the next Business Day (as hereinafter defined) if sent by overnight courier; or (c) four Business Days after mailing if mailed by prepaid registered mail, return receipt requested, to the appropriate notice address set forth below or at such other address as any party hereto may have furnished to the other parties in writing by registered mail, return receipt requested.

If to the Issuer:

Vuzix Corporation
75 Town Centre Drive
Rochester, NY 14623
Attn: Paul J. Travers, President and Chief Executive Officer
Fax: (585) 359-4172

with copies to:

Wildeboer Dellelce LLP
Suite 800, Wildeboer Dellelce Place
365 Bay Street
Toronto, Ontario M5H 2V1
Attn: Robert Fonn
Fax: (416) 361-1790

Boylan, Brown, Code, Vigdor & Wilson, LLP
2400 Chase Square
Rochester, New York 14604
Attn: Robert F. Mechur
Fax: (585) 232-3528

If to the Offering Agents:

Canaccord Capital Corporation
Suite 2200 – 609 Granville Street
P.O. BOX 10337, Pacific Centre

Vancouver, British Columbia V7Y 1H2
Attn: David Rentz
Fax: (604) 643-7733

Bolder Investment Partners, Ltd.
Suite 800 – 1450 Creekside Drive
Vancouver, British Columbia V6J 5B3
Attn: Paul Woodward
Fax: (604) 714-2326

Lighthouse Financial Group LLC
Suite 1430 – 420 Lexington Avenue
New York, New York 10170 4001
Attn: Jeff Morfit
Fax: ◆

with copies to:

McCullough O'Connor Irwin LLP
1100 – 888 Dunsmuir Street
Vancouver, British Columbia V6C 3K4
Attn: James Beeby
Fax: (604) 687-7099

Dorsey & Whitney LLP
370 – 17th St., Suite 4700
Denver, Colorado 80202
Attn: Kenneth G. Sam
Fax: (303) 629-3450

If to the Escrow Agent:

JPMorgan Chase Bank, National Association
4 New York Plaza, 21st Floor
NY, NY 10004
Attn: Greg Kupchynsky/Rola Tseng
Fax: (212) 623-6168

Notwithstanding the above, in the case of communications delivered to the Escrow Agent pursuant to (i), (ii) and (iii) of this Section 10, such communications shall be deemed to have been given on the date received by an officer of the Escrow Agent or any employee of the Escrow Agent who reports directly to any such officer at the above-referenced office. In the event that the Escrow Agent, in its sole discretion, shall determine that an emergency exists, the Escrow Agent may use such other means of communication as the Escrow Agent deems appropriate. Any communications received after 5:00 pm Eastern Time shall be deemed to have been received on the next Business Day. "Business Day" shall mean any day other than a Saturday, Sunday or any other day on which the Escrow Agent located at the notice address set forth above is authorized or required by law or executive order to remain closed.

11. Security Procedures.

11.1. In the event funds transfer instructions are given (other than in writing at the time of execution of this Escrow Agreement), whether in writing, by facsimile or otherwise, the Escrow Agent is authorized to seek confirmation of such instructions by telephone call-back to the person or persons designated on schedule 1 hereto ("Schedule 1"), and the Escrow Agent may rely upon the confirmation of anyone purporting to be the person or persons so designated. Each funds transfer instruction shall be executed by an authorized signatory, a list of such authorized signatories is set forth on Schedule 1. The persons and telephone numbers for call-backs may be changed only in a writing actually received and acknowledged by the Escrow Agent. If the Escrow Agent is unable to contact any of the authorized representatives identified in Schedule 1, the Escrow Agent is hereby authorized to seek confirmation of such instructions by telephone call-back to any one or more of Issuer or the applicable Offering Agent's executive officers, ("Executive Officers"), as the case may be, which shall include the titles of Chief Executive Officer, President and Executive Vice President, as the Escrow Agent may select. Such "Executive Officer" shall deliver to the Escrow Agent a fully executed incumbency certificate, and the Escrow Agent may rely upon the confirmation of anyone purporting to be any such officer. The Escrow Agent and the beneficiary's bank in any funds transfer may rely solely upon any account numbers or similar identifying numbers provided by Issuer or Offering Agent to identify (a) the beneficiary, (b) the beneficiary's bank, or (c) an intermediary bank. The Escrow Agent may apply any of the escrowed funds for any payment order it executes using any such identifying number, even when its use may result in a person other than the beneficiary being paid, or the transfer of funds to a bank other than the beneficiary's bank or an intermediary bank designated. The Parties acknowledge that these security procedures are commercially reasonable.

11.2. Issuer acknowledges that repetitive funds transfer instructions may be given to the Escrow Agent for one or more beneficiaries where only the date of the requested transfer, the amount of funds to be transferred, and/or the description of the payment shall change within the repetitive instructions ("Standing Settlement Instructions"). Accordingly, Issuer shall deliver to Escrow Agent such specific Standing Settlement Instructions only for each respective beneficiary as set forth in Exhibit A to this Escrow Agreement, by facsimile or other written instruction. Escrow Agent may rely solely upon such Standing Settlement Instructions and all identifying information set forth therein for each beneficiary. Escrow Agent and the Offering Agents agree that such Standing Settlement Instructions shall be effective as the funds transfer instructions of Issuer, without requiring a verifying callback, whether or not authorized, if such Standing Settlement Instructions are consistent with previously authenticated Standing Settlement Instructions for that beneficiary. The Parties and Escrow Agent acknowledge that such Standing Settlement Instructions are a security procedure and are commercially reasonable.

12. Compliance with Court Orders. In the event that any escrow property shall be attached, garnished or levied upon by any court order, or the delivery thereof shall be stayed or enjoined by an order of a court, or any order, judgment or decree shall be made or entered by any court order affecting the property deposited under this Escrow Agreement, the Escrow Agent is hereby expressly authorized, in its sole discretion, to obey and comply with all writs, orders or decrees so entered or issued, which it is advised by legal counsel of its own choosing is binding upon it, whether with or without jurisdiction, and in the event that the Escrow Agent obeys or complies with any such writ, order or decree it shall not be liable to any of the parties hereto or to any other person, entity, firm or corporation, by reason of such compliance notwithstanding such

writ, order or decree be subsequently reversed, modified, annulled, set aside or vacated.

13. Miscellaneous. The provisions of this Escrow Agreement may be waived, altered, amended or supplemented, in whole or in part, only by a writing signed by the Escrow Agent and the Parties. Neither this Escrow Agreement nor any right or interest hereunder may be assigned in whole or in part by the Escrow Agent or any Party, except as provided in Section 6, without the prior consent of the Escrow Agent and the other parties. This Escrow Agreement shall be governed by and construed under the laws of the State of New York. Each Party irrevocably waives any objection on the grounds of venue, forum non-conveniens or any similar grounds and irrevocably consents to service of process by mail or in any other manner permitted by applicable law and consents to the jurisdiction of the courts located in the State of New York. The Parties further hereby waive any right to a trial by jury with respect to any lawsuit or judicial proceeding arising or relating to this Escrow Agreement. No party to this Escrow Agreement is liable to any other party for losses due to, or if it is unable to perform its obligations under the terms of this Escrow Agreement because of, acts of God, fire, war, terrorism, floods, strikes, electrical outages, equipment or transmission failure, or other causes reasonably beyond its control. This Escrow Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. All signatures of the parties to this Escrow Agreement may be transmitted by facsimile, and such facsimile will, for all purposes, be deemed to be the original signature of such party whose signature it reproduces, and will be binding upon such party. If any provision of this Escrow Agreement is determined to be prohibited or unenforceable by reason of any applicable law of a jurisdiction, then such provision shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions thereof, and any such prohibition or unenforceability in such jurisdiction shall not invalidate or render unenforceable such provisions in any other jurisdiction. A person who is not a party to this Agreement shall have no right to enforce any term of this Agreement. The Parties represent, warrant and covenant that each document, notice, instruction or request provided by such Party to Escrow Agent shall comply with applicable laws and regulations. Where, however, the conflicting provisions of any such applicable law may be waived, they are hereby irrevocably waived by the parties hereto to the fullest extent permitted by law, to the end that this Escrow Agreement shall be enforced as written. Except as expressly provided in Section 8 above, nothing in this Escrow Agreement, whether express or implied, shall be construed to give to any person or entity other than the Escrow Agent and the Parties any legal or equitable right, remedy, interest or claim under or in respect of this Escrow Agreement or any funds escrowed hereunder.

[remainder of this page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have executed this Escrow Agreement as of the date set forth above.

VUZIX CORPORATION

By: _____
Name:
Title:

BOLDER INVESTMENT PARTNERS, LTD.

By: _____
Name:
Title:

CANACCORD CAPITAL CORPORATION

By: _____
Name:
Title:

LIGHTHOUSE FINANCIAL GROUP LLC

By: _____
Name:
Title:

CANACCORD ADAMS INC.

By: _____
Name:
Title:

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION,
as Escrow Agent

By: _____
Name:
Title:

SCHEDULE 1

Telephone Number(s) and authorized signature(s) for
Person(s) Designated to give Funds Transfer Instructions

Offering Agent:

Name	Telephone Number	Signature
1. Glenda Chin	604-643-7408	
2.		
3.		

If to Issuer:

Name	Telephone Number	Signature
1.		
2.		
3.		

Telephone Number(s) for Call-Backs and
Person(s) Designated to Confirm Funds Transfer Instructions

Offering Agent:

Name	Telephone Number
1. Glenda Chin	604-643-7408
2.	
3.	

Issuer:

Name	Telephone Number
1.	
2.	

Name _____ Telephone Number _____

3. _____ _____

Telephone call backs shall be made to both Parties if joint instructions are required pursuant to the agreement. All funds transfer instructions must include the signature of the person(s) authorizing said funds transfer and must not be the same person confirming said transfer.

SCHEDULE 2

Escrow Agent's Compensation:

$[TBD] per annum without pro-ration for partial years

The fees quoted are based on a review of the transaction documents provided and an internal due diligence review. JPMorgan reserves the right to revise, modify, change and supplement the fees quoted herein if the assumptions underlying the activity in the account, level of balances, market volatility or conditions or other factors change from those used to set our fees.

Extraordinary Services and Out-of Pocket Expenses

Any additional services beyond our standard services as specified above, and all reasonable out-of-pocket expenses including attorney's or accountant's fees and expenses will be considered extraordinary services for which related costs, transaction charges, and additional fees will be billed at the Bank's then standard rate. Disbursements, receipts, investments or tax reporting exceeding 25 items per year may be treated as extraordinary services thereby incurring additional charges.

EXHIBIT A

Standing Settlement Instructions

16

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. 4 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
November 10, 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 November 10, 2009.

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

Rochester, New York
November 10, 2009