

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 6
to
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

VUZIX CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

3577
(Primary Standard Industrial
Classification Code Number)

04-3392453
(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)

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

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

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

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

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

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

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

Title of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fees(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 indeterminate 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."

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 December 7, 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.** The TSX Venture Exchange (TSX-V) has conditionally approved the listing of our common stock and warrants under the symbols "VZX" and "VZX.WT", respectively. Listing of our common stock and warrants will be subject to fulfilling all of the requirements of the TSX-V.

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

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

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

The 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, for purposes of determining whether we have received minimum gross proceeds of Cdn\$6,000,000, will be translated into Canadian dollar equivalents at the US-Canadian dollar exchange rate prevailing at the date of determination.

CANACCORD ADAMS INC.

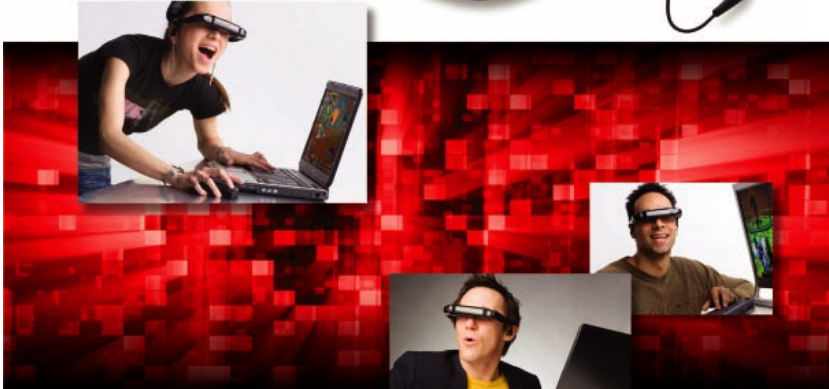
The date of this prospectus is _____, 2009.

CONSUMER VIDEO EYEWEAR



New for Fall 2009

Wrap 310 Widescreen
Sunglass style, virtual 52-inch screen viewed at nine feet.
For video players and PCs.



Video eyewear for gamers.
Connects to PCs and laptops.



All AV series video eyewear products support five 3D formats.



iWear® VR920
Virtual reality eyewear simulates a 62-inch screen viewed at nine feet. Includes integrated 3 degrees of freedom tracker and built-in microphone.



CamAR™
Clip-on USB camera for the iWear® VR920 that supports augmented reality applications.



CONSUMER VIDEO EYEWEAR

Video eyewear for mobile viewing.
Works with all audio / video devices
with composite video out
including iPod® and iPhone™.



**iWear® AV310
Widescreen**
Virtual widescreen format
simulates a 52-inch screen
at nine feet.
(iPod touch® made by Apple®)



iWear® AV230 XL+
Virtual 44-inch screen
viewed at nine feet.



iWear® AV920
Virtual 62-inch screen
viewed at nine feet.



All AV series video
eyewear products
support five
3D formats.



DEFENSE AND INDUSTRIAL



High-performance near-eye display solutions that provide wearable, private hands-free viewing for defense and industrial environments.



Tac-Eye Series
Durable monocular head-mounted computer or video displays designed to clip onto safety glasses, headsets or safety goggles.



Maritized Binocular
Big screen display for video/UAV/FLIR and naval applications.



Display Drive Electronics
Compact and low power display drive electronics subassemblies for integration into third party thermal sighting systems for use by defense forces.



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

PROSPECTUS SUMMARY

This summary provides an overview of selected information contained elsewhere in this prospectus and does not contain all of the information you should consider before investing in our securities. You should carefully read the prospectus and the registration statement of which this prospectus is a part in their entirety before investing in our securities, including the information discussed under "Risk Factors" beginning on page 8 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 again 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 entitle 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.
Minimum gross proceeds	Cdn\$6,000,000
Escrow Agreement	Pursuant to an escrow agreement that we will enter into with the agents and JP Morgan Chase Bank, National Association, as escrow agent, the funds

	<p>received by the agents in payment for the units sold in this offering will be deposited into non-interest bearing escrow accounts and held until the closing of the offering. US funds and Canadian funds received in payment for the units will be held in segregated escrow accounts. 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 translated into the Canadian dollar equivalent at the US-Canadian dollar exchange rate prevailing at the date of determination.</p>
Common stock to be outstanding after this offering	<p>Between 272,410,169 shares (assuming minimum gross proceeds of Cdn\$6,000,000 at the initial public offering price of Cdn\$0.15 per unit) and 282,510,169 shares (assuming the sale of the maximum number of units offered (50,000,000 units)).⁽²⁾</p>
Agent Compensation	<p>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.</p> <p>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 1.0% of our common stock issued and outstanding immediately upon the closing of the offering, which number is not expected to exceed 2,797,130 shares of our common stock. 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."</p>
Use of proceeds	<p>The minimum gross proceeds to us from the offering will be Cdn\$6,000,000 and we estimate that the net proceeds to us from such amount, after payment of agents' commissions and offering-related expenses, would be approximately Cdn\$4,777,000. Assuming the sale of the maximum number of units</p>

offered (50,000,000 units) and an initial public offering price of Cdn\$0.25 per unit (the maximum of our estimated initial public offering price range), we would receive gross proceeds of Cdn\$12,500,000 and we estimate that the net proceeds to us from such amount, after payment of agents' commissions and offering-related expenses, would be approximately Cdn\$10,757,000. We expect to use \$1,236,000 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 for 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 2,797,130 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 2,295,130 shares issuable upon conversion of \$75,000 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 1,200,000 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; (iv) up to 4,867,283 shares issuable upon exercise of outstanding warrants; and (v) up to 2,683,409 shares issuable upon conversion of a \$500,000 convertible promissory note outstanding, together with all accrued and unpaid interest thereon through September 30, 2009 which is expected to be out-of-the-money and repaid out of the proceeds from this offering.

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 September 30, 2009 and for the three and nine months ended September 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 September 30,		Nine Months Ended September 30,	
	2009 (Unaudited)	2008 (Unaudited)	2009 (Unaudited)	2008 (Unaudited)
Sales	\$ 2,838,461	\$ 2,391,142	7,920,548	\$ 7,199,123
Cost of Sales	1,846,632	1,784,761	5,068,493	5,143,499
Gross Margin	991,829	606,381	2,852,055	2,055,624
Operating Expenses				
Research and development	645,172	769,365	1,591,070	2,730,346
Selling and marketing	509,788	409,185	1,485,828	1,342,442
General and administrative	548,931	578,629	1,539,660	1,551,259
Depreciation and amortization	101,256	121,185	407,600	368,577
Total operating expenses	1,805,147	1,878,364	5,024,158	5,992,624
Profit (Loss) from operations	(813,318)	(1,271,983)	(2,172,103)	(3,937,000)
Interest and other income (expense)	3	15	63	181
Foreign exchange (loss) gain	(7,065)	(7,063)	(12,034)	(7,097)
Interest expense	(67,547)	(60,522)	(189,643)	(159,541)
Tax (expense) benefit	31,516	(850)	29,740	(4,500)
Total tax and other income (expense)	(43,093)	(68,420)	(171,874)	(170,957)
Net (Loss)	\$ (856,411)	\$ (1,340,403)	(2,343,977)	\$ (4,107,957)
Income (loss) per share:				
Basic and fully diluted*	(0.0040)	(0.0065)	(0.0110)	\$ (0.0205)
Weighted average common shares outstanding:				
Basic and fully diluted*	220,268,927	210,989,038	220,046,705	203,673,777

Statement of Operations Data	Year Ended December 31,		
	2008	2007	2006
	(Restated)	(Restated)	(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,			Nine Months Ended September 30,	
	2008	2007	2006	2009	2008
				(Unaudited)	(Unaudited)
Cash flows provided by (used in) operating activities	\$(1,285,449)	\$(3,295,900)	\$ 120,053	\$ (833,426)	\$(1,711,658)
Cash flows (used in) investing activities	(549,804)	(316,743)	(479,236)	(250,796)	(451,849)
Cash flows provided by financing activities	2,289,116	3,408,328	874,569	448,768	2,028,476

Balance Sheet Data	As of December 31,			As of September 30,	
	2008	2007	2006	2009	2008
				(Unaudited)	(Unaudited)
Cash and cash equivalents	\$ 818,719	\$ 364,856	\$ 569,171	\$ 183,265	\$ 229,825
Working Capital (deficiency)	(1,846,289)	966,658	69,766	(3,523,267)	(1,566,029)
Total Assets	6,221,897	6,967,254	5,013,263	4,550,261	6,112,024
Long-Term Liabilities	1,754,379	2,014,476	1,980,476	1,952,585	1,617,676
Accumulated (deficit)	(14,687,276)	(9,691,977)	(6,531,363)	(17,107,078)	(13,875,759)
Total Stockholders' equity (deficit)	(2,089,942)	423,236	(603,954)	(4,121,930)	(1,629,383)

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 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 \$2,343,977 and \$4,107,957 for the nine-month periods ended September 30, 2009 and 2008, respectively. We had an accumulated deficit of \$17,107,078 as of September 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 47% and 51% for the nine-month periods ended September 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 7% for the nine-month periods ended September 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 63%, 68% and 69% of our sales in 2008, 2007 and 2006, respectively, and for 53% and 58% of our sales in the nine-month periods ended September 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 26% and 23% as of September 30, 2009 and 2008, respectively. As of September 30, 2009, our two major customers represented 40% 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

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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 effect 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 55 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. The TSX-V has conditionally approved the listing of our common stock and warrants under the symbols "VZX" and "VZX.WT", respectively. Listing of our common stock and warrants will be subject to fulfilling all of the requirements of the TSX-V, including, in the case of the warrants, distribution of the warrants to at least 100 public security holders. Neither the TSX-V nor any other exchange or quotation system may permit our common stock or warrants 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, Pennsylvania 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 be 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 272,410,169 (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 282,510,169 (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 1.0% 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. The TSX-V has conditionally approved the listing of our common stock and warrants under the symbols "VZX" and "VZX.WT", respectively. Listing of our common stock and warrants 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-averse 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 \$(0.1411) 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 \$(0.2156) 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 of 1.0% 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.

Changes in the US-Canadian dollar exchange rate may cause investors purchasing units in US funds to pay more per unit than investors purchasing units in Canadian funds and therefore realize a lower return on their investment.

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). US funds and Canadian funds received in payment for the units will be held in segregated escrow accounts. 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 translated into the Canadian dollar equivalent at the then prevailing US-Canadian dollar exchange rate. If the value of the Canadian dollar with respect to the US dollar declines between the date immediately prior to the effective date of the registration statement and the closing date, then investors who paid for units in US funds will have paid more per unit than the investors who paid in Canadian dollars. Assuming no future changes in the exchange rate to their advantage, this would cause investors who paid for units in US funds to realize a lower return on their investment.

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 15c-2 through 15c-9 promulgated under the Exchange Act. For example, Rule 15c-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 15c-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 September 30, 2009, we had net operating loss carryforwards of approximately \$14,300,000 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\$1.0579, the closing buying rate of the Bank of Canada on December 4, 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\$ ● 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\$4,770,000. 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\$ ● million) and estimate that the net proceeds to us, after payment of agents' commissions and offering expenses, would be approximately Cdn\$10,757,000.

Assuming that we receive the estimated maximum amount of the proceeds from this offering, we plan to use approximately \$1,236,000 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 \$150,000 was due and payable on October 31, 2009 and the remaining \$50,000 is due November 24, 2009. As of the date of this prospectus none of the holders of the loans due October 31, 2009 has demanded payment of these loans. We borrowed this \$200,000 from three individual lenders (including \$50,000 from Mr. Paul Churnetski, our Vice President of Quality Assurance and the beneficial owner of approximately 9% of our issued and outstanding common stock) to finance part of our working capital investment for a defense order that is currently in process and we intend to repay those loans out of revenues from that defense order if this offering does not close prior to the maturity date. Prior to the closing of this offering, we may borrow 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:

<u>New Product Development Objectives</u>	<u>Completion Date</u>
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

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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\$ ● million) (the minimum gross proceeds of the offering) to Cdn\$12,500,000 (or approximately US\$ ● 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\$743,000 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\$)	743,000	743,000	743,000	743,000
Net proceeds from offering (Cdn\$)	4,777,000	6,617,000	8,457,000	10,757,000
Net proceeds (US\$) ⁽¹⁾	4,515,000	6,254,000	7,994,000	10,168,000
Less use of net proceeds (US\$):				
Repayment of debt	1,236,000	1,236,000	1,236,000	1,236,000
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	2,711,000	3,286,000	4,011,000	4,836,000
Unallocated for general working capital	\$ 1,804,000	\$ 2,968,000	\$ 3,983,000	\$ 5,332,000

(1) Based upon an exchange rate of Cdn\$1.00 = US\$0.9453. If the value of the Canadian dollar with respect to the US dollar increases prior to the closing of the offering, our net proceeds in US dollars will decrease accordingly. Similarly, if the value of the Canadian dollar with respect to the US dollar decreases prior to the closing of the offering, our net proceeds in US dollars will increase accordingly.

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

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between the approximately US\$1,804,000 and US\$5,332,000 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 September 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 7,148,982 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 \$0.0571 per share into 2,295,130 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\$ ● 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\$ ● million), after deducting estimated underwriting commissions and offering expenses of between Cdn\$1,223,000 and Cdn\$1,743,000 and the issuance of up to 2,797,130 shares of our common stock to the Canadian agents in payment of a fiscal advisory fee.

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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.

	September 30, 2009					
	Actual (Unaudited)	Pro Forma	Pro Forma As Adjusted			
Gross proceeds from offering (Cdn\$)			\$ 6,000,000	\$ 8,000,000	\$ 10,000,000	\$ 12,500,000
Estimated net proceeds from offering (US\$)			4,515,000	6,254,000	7,994,000	10,168,000
Cash and cash equivalents	\$ 183,265		4,698,265	6,437,265	8,177,265	10,351,265
Long-term debt (non-convertible) and related accrued interest	1,421,435		1,421,435	1,421,435	1,421,435	1,421,435
Accrued cumulative preferred dividends	400,124	(400,124)	—	—	—	—
Convertible promissory notes and bridge loans and related accrued interest	131,026	(131,026)	—	—	—	—
Total long-term obligations	1,952,585		1,421,435	1,421,435	1,421,435	1,421,435
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	9,401	272,367	272,367	282,467	282,467
Additional paid-in capital	12,992,046	521,918	17,986,267 ⁽¹⁾	19,725,267 ⁽¹⁾	21,455,167 ⁽²⁾	23,629,167 ⁽²⁾
Subscriptions receivable	(227,336)		(227,336)	(227,336)	(227,336)	(227,336)
Accumulated deficit	(17,107,078)		(17,107,078)	(17,107,078)	(17,107,078)	(17,107,078)
Total stockholders' equity (deficit)	(4,121,930)		924,220	2,663,220	4,403,220	6,577,220
Total capitalization	\$ (1,986,080)		\$ 7,043,920	\$ 10,521,920	\$ 14,001,920	\$ 18,349,920

(1) 272,410,169 shares of common stock issued and outstanding on a pro forma as adjusted basis.

(2) 282,510,169 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 September 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
- 4,867,283 shares of our common stock issuable upon exercise of outstanding warrants, having a weighted average exercise price of \$0.1382 per share.

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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 1.0% 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 September 30, 2009 was a deficit of approximately \$(6,534,000), or \$(0.0296) per share, based on the number of shares outstanding as of September 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 September 30, 2009 was a deficit of approximately \$(4,320,000), or approximately \$(0.0200) 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 7,148,982 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 2,295,130 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 September 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\$ ● 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\$ ● million), and after deducting estimated underwriting commissions and offering expenses of between Cdn\$1,223,000 and Cdn\$1,743,000, and the issuance of up to 2,797,130 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 September 30, 2009	\$ (0.0296)	\$ (0.0296)	\$ (0.0296)	\$ (0.0296)
Increase in net tangible book value deficit per share attributable to conversion of preferred stock and convertible notes	0.0096	0.0096	0.0096	0.0096
Pro forma net tangible book value deficit per share as of September 30, 2009	(0.0200)	(0.0200)	(0.0200)	(0.0200)
Increase in net tangible book value per share attributable to investors participating in this offering, after offering costs	0.0207	0.0271	0.0330	0.0407
Pro forma as adjusted net tangible book value per share after this offering	0.0007	0.0071	0.0130	0.0207
Assumed gross initial public offering price per unit (US\$)	0.1418	0.1891	0.1891	0.2363
Pro forma dilution per share to investors participating in this offering	\$ (0.1411)	\$ (0.1820)	\$ (0.1761)	\$ (0.2156)

The following table summarizes, on a pro forma as adjusted basis as of September 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\$1,223,000 and Cdn\$1,743,000, assuming the sale of the number of units at the initial public offering prices specified below and the issuance of the

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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		Average Price per Share
	Number	Percent (%)	Amount	Percent (%)	
Offering of 40,000,000 units at Cdn\$0.15					
Existing stockholders before this offering	229,713,039	84.3	\$13,516,298	75.0	\$ 0.0588
Investors participating in this offering	40,000,000	14.7	4,515,550	25.0	0.1129
Agents (in payment of fiscal advisory fee)	2,697,130	1.0	—	0.0	0.0
Total	272,410,169	100.0	\$18,031,848	100.0	\$ 0.0662
Offering of 40,000,000 units at Cdn\$0.20					
Existing stockholders before this offering	229,713,039	84.3	\$13,516,298	68.4	\$ 0.0588
Investors participating in this offering	40,000,000	14.7	6,254,845	31.6	0.1564
Agents (in payment of fiscal advisory fee)	2,697,130	1.0	—	0.0	0.0
Total	272,410,169	100.0	\$19,771,143	100.0	\$ 0.0726
Offering of 50,000,000 units at Cdn\$0.20					
Existing stockholders before this offering	229,713,039	81.3	\$13,516,298	62.8	\$ 0.0588
Investors participating in this offering	50,000,000	17.7	7,994,139	37.2	0.1599
Agents (in payment of fiscal advisory fee)	2,797,130	1.0	—	0.0	0.0
Total	282,510,169	100.0	\$21,510,437	100.0	\$ 0.0761
Offering of 50,000,000 units at Cdn\$0.25					
Existing stockholders before this offering	229,713,039	81.3	\$13,516,298	57.1	\$ 0.0588
Investors participating in this offering	50,000,000	17.7	10,168,258	42.9	0.2034
Agents (in payment of fiscal advisory fee)	2,797,130	1.0	—	0.0	0.0
Total	282,510,169	100.0%	\$23,684,556	100.0	\$ 0.0838

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 288,760,169 shares or 19.5% 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 1.0% 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 September 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
- 4,867,283 shares of common stock issuable upon exercise of then outstanding warrants, having a weighted average exercise price of \$0.1382 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 FASB ASC 810-10-65 (formerly SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements — an amendment of ARB No. 51*). FASB ASC 810-10-65 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent. Specifically, FASB ASC 810-10-65 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. FASB ASC 810-10-65 is effective as of January 1, 2009. The provisions of FASB ASC 810-10-65 are generally required to be applied prospectively, except for the presentation and disclosure requirements, which must be applied retrospectively. The adoption of FASB ASC 810-10-65 did not have a material effect on our consolidated financial statements.

In December 2007, the Financial Accounting Standards Board ("FASB") issued FASB ASC 805 (formerly SFAS 141(R), *Business Combinations*). FASB ASC 805 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. FASB ASC 805 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

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FASB ASC 805 on our consolidated financial position and results of operations for the first three 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.

We adopted, as of July 1, 2009, the Financial Accounting Standards Board's ("FASB's") Accounting Standards Codification ("ASC") as the source of authoritative accounting principles recognized by the FASB to be applied to nongovernmental entities in the preparation of financial statements in conformity with GAAP. The ASC does not change authoritative guidance. Accordingly, implementing the ASC did not change any of our accounting, and therefore, did not have an impact on our consolidated results. References to authoritative GAAP literature have been updated accordingly.

On January 1, 2009, we adopted the provisions of FASB ASC topic 820 *Fair Value Measurements and Disclosures* (formerly SFAS No. 157, *Fair Value Measurements*), with respect to non-financial assets and liabilities. This pronouncement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The adoption of ASC topic 820 did not have a material impact on our consolidated financial statements.

On January 1, 2009, we adopted FASB ASC topic 815-40 "*Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock*" (formerly EITF 07-5). ASC topic 815-40 provides guidance on determining whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception under prior authoritative literature FASB No. 133, "Accounting for Derivative Instruments and Hedging Activities." ASC 815-40 is effective for fiscal years beginning after December 15, 2008. The adoption of ASC topic 815-40 did not have a material impact on our consolidated financial statements.

On January 1, 2009, we adopted the provisions of FASB ASC Topic 320-10-65 (formerly FSP FAS 107-1 and APB 28-1) "*Interim Disclosures about Fair Value of Financial Instruments*". This update requires fair value disclosures for financial instruments that are not currently reflected on the balance sheet at fair value on a quarterly basis. The adoption of ASC Topic 320-10-65 did not have a material impact on our consolidated financial statements.

On January 1, 2009, we adopted the provisions of ASC 815-10 (formerly FASB Statement 161, "*Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133*"). FASB ASC 815-10 requires enhanced disclosures about an entity's derivative and hedging activities. FASB ASC 815-10 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 with early application encouraged. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

In May 2009, we adopted FASB ASC topic 855, "*Subsequent Events*" (formerly SFAS No. 165). This Statement sets forth: (i) 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; (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of ASC topic 855 did not have a material impact on our consolidated financial statements. We have evaluated the period beginning October 1, 2009 through November 16, 2009, the date our financial statements were issued, and concluded there were no events or transactions occurring during this period that required recognition or disclosure in its financial statements.

In June 2009, the FASB issued ASC topic 105 "*Generally Accepted Accounting Principles*", (formerly Statement of Financial Standards (SFAS) No. 168, *The Hierarchy of Generally Accepted Accounting Principles*). ASC topic 105 contains guidance which reduces the U.S. GAAP hierarchy to two levels, one that is authoritative and one that is not. This pronouncement is effective September 15, 2009. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

In September 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-08, "*Earnings Per Share*" Amendments to Section 260-10-S99. This Codification Update represents technical corrections to Topic 260-10-S99, Earnings per Share, based on EITF Topic D-53, "*Computation of Earnings Per Share for a Period that Includes a Redemption or an Induced Conversion of a Portion of a Class of Preferred Stock*" and EITF Topic D-42,

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The Effect of the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock goes into effect in the period that includes a redemption or induced conversion. Adoption of this new guidance did not have a material impact on our consolidated financial statements.

In October 2009, the FASB issued authoritative guidance on ASC 605-25 “Revenue Recognition — Multiple-Deliverable Revenue Arrangement” that will become effective beginning July 1, 2010, with earlier adoption permitted. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. We believe adoption of this new guidance will not have a material impact on our consolidated financial statements.

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 September 30, 2009 and for the three and nine months ended September 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		Nine Months Ended September 30,	
	September 30,		September 30,	
	2009 (Unaudited)	2008 (Unaudited)	2009 (Unaudited)	2008 (Unaudited)
Sales	\$ 2,838,461	\$ 2,391,142	7,920,548	\$ 7,199,123
Cost of Sales	<u>1,846,632</u>	<u>1,784,761</u>	<u>5,068,493</u>	<u>5,143,499</u>
Gross Margin	991,829	606,381	2,852,055	2,055,624
Operating Expenses				
Research and development	645,172	769,365	1,591,070	2,730,346
Selling and marketing	509,788	409,185	1,485,828	1,342,442
General and administrative	548,931	578,629	1,539,660	1,551,259
Depreciation and amortization	101,256	121,185	407,600	368,577
Total operating expenses	<u>1,805,147</u>	<u>2,270,487</u>	<u>5,024,158</u>	<u>5,992,624</u>
Profit (Loss) from operations	(813,318)	(1,271,983)	(2,172,103)	(3,937,000)
Interest and other income (expense)	3	15	63	181
Foreign exchange (loss) gain	(7,065)	(7,063)	(12,034)	(7,097)
Interest expense	(67,547)	(60,522)	(189,643)	(159,541)
Tax (expense) benefit	<u>31,516</u>	<u>(850)</u>	<u>29,740</u>	<u>(4,500)</u>
Total tax and other income (expense)	<u>(43,093)</u>	<u>(68,420)</u>	<u>(171,874)</u>	<u>(170,957)</u>
Net (Loss)	\$ (856,411)	\$ (1,340,403)	(2,343,977)	\$ (4,107,957)
Income (loss) per share:				
Basic and fully diluted*	(0.0040)	(0.0065)	(0.0110)	\$ (0.0205)
Weighted average common shares outstanding:				
Basic and fully diluted*	220,268,927	210,989,038	220,046,705	203,673,777

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Statement of Operations Data	Year Ended December 31,		
	2008	2007	2006
	(Restated)	(Restated)	(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,			Nine Months Ended	
	2008	2007	2006	September 30,	2008
				(Unaudited)	(Unaudited)
Cash flows provided by (used in) operating activities	\$ (1,285,449)	\$ (3,295,900)	\$ 120,053	\$ (833,426)	\$ (1,711,658)
Cash flows (used in) investing activities	(549,804)	(316,743)	(479,236)	(250,796)	(451,849)
Cash flows provided by financing activities	2,289,116	3,408,328	874,569	448,768	2,028,476

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Balance Sheet Data	As of December 31,			As of September 30,	
	2008	2007	2006	2009 (Unaudited)	2008 (Unaudited)
Cash and cash equivalents	\$ 818,719	\$ 364,856	\$ 569,171	\$ 183,265	\$ 229,825
Working Capital (deficiency)	(1,846,289)	966,658	69,766	(3,523,267)	(1,566,029)
Total Assets	6,221,897	6,967,254	5,013,263	4,550,261	6,122,024
Long-Term Liabilities	1,754,379	2,014,476	1,980,476	1,952,585	1,617,676
Accumulated (deficit)	(14,687,276)	(9,691,977)	(6,531,363)	(17,107,078)	(13,875,759)
Total Stockholders' equity (deficit)	(2,089,942)	423,236	(603,954)	(4,121,930)	(1,629,383)

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 28 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

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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 in accordance with FASB ASC Topic 360-10, (formerly SFAS No. 144). 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 \$726,998 as of September 30, 2009, because management believes that its value is recoverable.

Revenue Recognition

Revenue from product sales is recognized in accordance with FASB ASC Topic 605, (formerly 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.

Research and Development

Research and development costs, are expensed as incurred consistent with the guidance of FASB ASC Topic 730, "Research and Development," and include employee related costs, office expenses, third party design and engineering services, and new product prototyping costs.

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 \$14,300,000 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.

Off Balance Sheet Arrangements

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

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 September 30, 2009 and September 30, 2008

Sales. Our sales were \$2,838,461 for the three months ended September 30, 2009 compared to \$2,391,142 for the three months ended September 30, 2008. This represents an 18.7% increase for the 2009 period over the comparable 2008 period. Our sales from defense production programs increased to \$1,687,315 or 59.4% of total

sales for the 2009 period from \$899,681 or 37.6% of sales in the comparable 2008 period, an increase of \$787,634 or 87.5%. Sales from our defense related engineering services programs decreased to \$324,776 or 11.4% of sales for the 2009 period versus \$536,961 or 22.5% of total sales in the comparable 2008 period. Consumer Video Eyewear product sales decreased to \$819,593 or 28.9% of total sales for the three months ended September 30, 2009 compared to \$907,006 or 37.9% of total sales for the same period in 2008. This (9.6)% decrease in revenues was primarily due to the Video Eyewear model changeover to our new Wrap series that had been scheduled for early September 2009 but was delayed until October 2009. We had purposely chosen to limit the availability of our older models for this changeover and several of our customers reduced or deferred their purchases awaiting the new Wrap models. Low-vision assist sales for the three months ended September 30, 2009 were \$6,777 or 0.2% of total sales versus \$47,494 or 2.0% of sales in the comparable 2008 period. Low-vision assist revenues for 2008 period reflected the first sales of that product in September 2008 and the fulfilling of resellers' initial stocking levels. Revenues for the 2009 period are in line with our average quarterly sales of low-vision assist products during the first two quarters of fiscal 2009.

Cost of Sales and Gross Margin. Gross margin increased to \$991,829 for the three-months ended September 30, 2009 from \$606,381 for three months ended September 30, 2008, an increase of \$385,448 or 63.6%. As a percentage of net sales, gross margin increased to 34.9% for 2009 period compared to 25.4% for the comparable 2008 period. Gross margins for the 2009 period were higher than for the similar period in 2008 due to increased margins earned on defense product sales which were 59.4% of sales and only 37.6% in the 2008 period. Additionally our margins on consumer Video Eyewear products rose slightly due to price increases to our European resellers that we implemented in 2009. Sales to our European resellers represent approximately 20% of our consumer Video Eyewear sales.

Research and Development. Our research and development expenses in the three months ended September 30, 2009 were \$645,172 versus \$769,365 in the comparable 2008 period, a decrease of \$(124,193) or (16.1%). This decrease was due to lower staffing levels and our decreased use of external contractors for development work versus the comparable 2008 period.

Selling and Marketing. Selling and marketing expenses were \$509,788 for the three months ended September 30, 2009 as compared to \$409,185 for the comparable 2008 period, an increase of \$100,603 or 24.6%. As a percentage of total sales, the selling and marketing expenses were 18.0% of sales for the three month period in 2009 as compared to 17.1% for same period in fiscal 2008. The increase was primarily due to the transfer of two employees from research and development on our low vision products to sales and the addition of two marketing consultants to assist in developing new channels for our products.

General and Administrative. General and administrative expenses were \$548,931 for the three months ended September 30, 2009 as compared to \$578,629 for the comparable 2008 period, a decrease of \$(29,698) or (5.1%).

Depreciation and Amortization. Our depreciation and amortization expense decreased by \$(19,929), or (16.4)% to \$101,256 in the three months ended September 30, 2009 versus \$121,185 in the comparable 2008 period. The decrease is attributable to certain previously capitalized tooling becoming fully depreciated.

Other Income (Expense). Interest expense, net of interest income and foreign exchange adjustments, was \$(74,609) in the three months ended September 30, 2009 versus \$(67,570) 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 September 30, 2009 were \$4,136 and \$850 for the comparable 2008 period. During the third quarter of 2009 we received an additional tax credit over our prior refund accruals from New York State totaling \$(35,652).

Net (Loss) and (Loss) per Share. Our net loss was \$(856,411) (or \$(0.0040) per share) in the three months ended September 30, 2009, a decrease from an overall loss of \$(1,340,403) or \$(0.0065) per share for the same quarter in 2008.

Comparison of Nine Months Ended September 30, 2009 and September 30, 2008

Sales. Our sales were \$7,920,548 for the nine months ended September 30, 2009 compared to \$7,199,123 for the nine months ended September 30, 2008. This represents a 10.0% increase for the 2009 period over the comparable 2008 period. Our sales from defense production programs were \$4,374,452 or 55.2% of total sales for the 2009 period versus \$4,197,539 and 58.3% of total sales in the comparable 2008 period, an increase of \$176,913. Increased sales of our Tac-Eye product line resulted in the 2009 increase. Sales from our defense related engineering service programs increased to \$956,546 or 12.1% of total sales for the 2009 period versus \$854,954 or 11.9% of sales in the comparable 2008 period. Consumer Video Eyewear product sales increased to \$2,564,984 or 32.4% of total sales for the nine months ended September 30, 2009 as compared to \$2,092,435 or 29.1% of total sales for the same period in 2008. This 22.6% increase was entirely due to increased sales in Europe and Japan during 2009 as compared to the same period in 2008. Low-vision assist sales for the nine months ended September 30, 2009 were \$24,566 versus \$54,195 for the same period in 2008, both less than 0.8% of our overall revenues in each year's period.

Cost of Sales and Gross Margin. Gross margin increased to \$2,852,055 for the nine months ended September 30, 2009 from \$2,055,624 for nine months ended September 30, 2008, an increase of \$796,431 or 38.7%. As a percentage of total net sales, overall gross margin increased to 36.0% for 2009 period compared to 28.6% for the comparable 2008 period. Gross margins in 2009 were improved due to higher pricing on our consumer Video Eyewear for export, some cost reductions and no unusual product discounting as had occurred in early 2008 period, when an older product model was being phased out and larger reseller discounts were being offered to assist its sales.

Research and Development. Our research and development expenses in the nine months ended September 30, 2009 were \$1,591,070 versus \$2,730,346 in the comparable 2008 period, a decrease of \$(1,139,276) or (41.7)%. This was due to staff reductions made in late 2008 and our decreased use of external contractors in the 2009 period versus the comparable 2008 period, particularly during the first two quarters of 2009.

Selling and Marketing. Selling and marketing expenses were \$1,485,828 for the nine months ended September 30, 2009 as compared to \$1,342,442 for the comparable 2008 period, an increase of \$143,386. As a percentage of total sales, the selling and marketing expenses increased slightly to 18% of sales for the nine month period in 2009 as compared to 18.6% for same period in fiscal 2008. The increase was primarily due to the transfer of two employees from research and development on our low vision products to sales and the addition of two marketing consultants to assist in developing new channels for our products.

General and Administrative. General and administrative expenses were \$1,539,660 for the nine months ended September 30, 2009 as compared to \$1,551,259 for the comparable 2008 period, a decrease of \$(11,599) or (0.7)%.

Depreciation and Amortization. Our depreciation and amortization expense increased by \$39,023, or 10.6%, to \$407,600 in the nine months ended September 30, 2009 versus \$368,577 in the comparable 2008 period.

Other Income (Expense). Interest expense, net of interest income and foreign exchange adjustments, was \$(201,614) in the nine months ended September 30, 2009 versus \$(166,457) 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 nine months ended September 30, 2009 were \$5,912 and \$4,500 for the comparable 2008 period. During the third quarter of 2009 we received an additional tax credit over our prior refund accruals from New York State totaling \$(35,652).

Net (Loss) and (Loss) per Share. Our net loss was \$(2,343,977) (or \$(0.0110) per share) in the nine months ended September 30, 2009, an improvement of \$1,763,980, or 42.9%, from the larger loss of \$(4,107,957) or \$(0.0205) per share in the comparable 2008 period.

Liquidity and Capital Resources

As of September 30, 2009, we had cash and cash equivalents of \$183,265, a decrease of \$(635,454) 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 seven days. Our normal payment terms average 35 days on 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 \$(833,426) and \$(1,711,658) for the nine-month periods ended September 30, 2009 and 2008, respectively. Changes in operating assets and liabilities, excluding cash, were \$958,650 and \$1,892,498 for the nine-month periods ended September 30, 2009 and 2008, respectively. In both these periods, the reductions in accounts receivable from the seasonally higher December 31 balances were the major providers of cash.

Investing Activities. Cash used in investing activities was \$549,804 in fiscal 2008 and \$316,743 in fiscal 2007 and \$250,796 and \$451,849 for the nine-month periods ended September 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 nine-month period ended September 30, 2009 related primarily to tooling acquisitions of \$164,631 versus \$344,139 for the same 9 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 \$86,165 and \$107,710 for the nine-month periods ended September 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 \$448,768 and \$2,028,476 for the nine-month periods ended September 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 nine-month period ended September 30, 2009 in private placements offerings. In the nine-month period ended September 30, 2008 we sold shares of our common stock for aggregate net proceeds of \$1,965,656 and received \$30,283 from the exercise of warrants and stock options. In August and September 2009, we received \$200,000 in notes payable.

Capital Resources. As of December 31, 2008, we had a cash balance of \$818,719. As of September 30, 2009, we had a cash balance of \$183,255. We had \$28,210 available under our bank lines of credit (total drawings as of September 30, 2009 were \$184,290). 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 \$150,000 was due and payable on October 31, 2009 and the remaining \$50,000 was due and payable on November 24, 2009. As of the date of this prospectus, the holders of these loans have not demanded payment. 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 similar 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.

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 the date of this prospectus, all three of these suppliers have 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 and September 2009, we borrowed a total of \$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 November 30, 2009 we had approximately \$309,155 in cash and cash equivalents and we had \$29,348 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 \$150,000 was due and payable on October 31, 2009 and the remaining \$50,000 was due and payable on November 24, 2009. As of the date of this prospectus, the holders of these loans have not demanded payment. 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 similar 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.

We had a working capital deficit of \$3,523,267 as of September 30, 2009 and this deficit will increase by a further amount if we continue to incur operating losses. 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 demanded 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 18 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 the first quarter of 2010. We expect the program to be completed in nine months.

As of December 4, 2009, we had backorders for our consumer Video Eyewear products of \$825,000 and orders totaling \$563,000 for our Tac-Eye Video Eyewear products. We have an engineering program in progress with eventual gross billings of \$56,000 which is expected to be completed by January 2010. Since September 30, 2009, our

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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 be able to achieve additional growth in sales of our consumer Video Eyewear products and defense products. However, if we succeed in closing this offering and eliminate our working capital deficit, and subject to the continued cooperation of our suppliers, it could take up to four months to support higher manufacturing rates that could allow us to increase the average monthly sales rates of our products, assuming adequate customer demand exists in the future. 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 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 1280x720 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;

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- 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-templates. 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, MIDIs, 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 be 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 Wrapm 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 is not see-through and was introduced in late 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 Wrapm 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 approximately 123,000 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,

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\$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 currently consists of:

- 51 total patents issued worldwide;
- 31 US patents issued (14 non-provisional, 17 design);
- 10 US patents pending (1 design, 7 non-provisional, 2 provisional);
- 20 international (non-US) patents issued (18 design, 2 non-provisional);
- 6 international (non-US) patents pending (6 non-provisional); and
- 3 new invention disclosures are being prepared for purposes of preparing patent applications, covering additional aspects of our virtual display technology.

In December 2005, we entered into a technology acquisition agreement with New Light Industries, Ltd., pursuant to which we acquired two US patents covering an extremely compact head-mounted virtual reality display, the Chinese patents derived from those US patents and certain other related intellectual property. In consideration for that technology, we paid New Light cash and issued to New Light a warrant to purchase up to 1,142,864 shares of our common stock at an exercise price of \$0.01 per share. The warrant became exercisable over three years from the date of issuance and remains exercisable at any time through December 31, 2015. Under the agreement, New Light has the right to include the shares of common stock issuable upon exercise of its warrant in any registration of our securities under the Securities Act, subject to certain exceptions. 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. We also agreed to pay New Light a continuing royalty on the sale of all products that incorporate or use the acquired technology for a period of time after the successful commercialization of the technology. As of the date of this prospectus, we have not successfully commercialized the acquired technology or sold any products that incorporate or use the acquired technology. The agreement also provides that, if we sell or license the acquired technology to a third party, the buyer or licensee must agree to assume our obligations under the technology acquisition agreement. We are prohibited from using the acquired technology at any time during which we are in breach of our indemnification obligations to New Light or in breach of any other material term of the agreement if such breach has not been cured within 30 days after notice. Our right to use the acquired technology is reinstated upon the cure of any such breach. The agreement remains in effect so long as any royalties are payable to New Light under the agreement.

Our US patents expire on various dates from May 7, 2010 until June 8, 2027. 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 sunglasses-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 Wrapm 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 Bladem. 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 manufacturers 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 its 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 Wrapm 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 Wunit. 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.

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 September 30, 2009 we had resellers in 23 countries that had placed orders with us in the last nine 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.

In August 2009, we entered into a long-term exclusive distribution agreement for Mainland China, Hong Kong, Macau, and Taiwan with YuView Holdings Ltd. Under this agreement, YuView has the exclusive right to distribute our products in the territory, subject to their achievement of minimum annual sales volumes. Also, if YuView fails to establish a relationship with a major customer within a certain period of time, their distribution rights may become non-exclusive at our option. The agreement provides for us to sell our products to YuView at specified price and volume discounts and not to sell our products to any other resellers at greater discounts. Under the agreement, YuView has the option, subject to its achievement of unit sales volume thresholds, to manufacture some of our products in China for sale in that market only. If any of our competitors offers to purchase a controlling equity interest in YuView, we have a right of first refusal to purchase the same interest on the same terms and conditions as those proposed by the offeror. The agreement has an initial term of five years and will then renew automatically for an additional five year term unless YuView is then in breach. YuView may terminate the agreement at any time on six months written notice. We may terminate the agreement if YuView fails to obtain a specified amount of financing and commence operations before December 31, 2009 or if they fail to sell the required minimum amounts of our products. Either party may terminate the agreement upon any material breach by the other party if that breach is not cured within 30 days after notice.

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

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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 55 full-time employees in North America: seven in sales and marketing, distribution, and customer service; 14 in research and development and engineering services support; 24 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	48	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 August 1999 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

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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 Chief Executive Officer	2008	\$200,000	—	—	—	\$200,000
	2007	\$142,460	—	—	—	\$142,460
Grant Russell, Chief Financial Officer & Executive Vice President	2008	\$175,000	—	—	\$ 24,571 ⁽¹⁾	\$199,571
	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.

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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 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

Name	Option Awards				
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Number of Securities Underlying Unexercised 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 invested 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 September 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.

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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

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 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\$ ● 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.

Shareholder Loan

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 \$150,000 was due and payable on October 31, 2009 and the remaining \$50,000 was due and payable on November 24, 2009. As of the date of this prospectus, the holders of these loans have not demanded payment. We borrowed these funds to finance part of our working capital investment for a defense order in process. We intend to repay all these loans from revenues from the receivables collections from that order or out of the proceeds from this offering.

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 if it 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, to 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

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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⁾	32.62%	26.45%	25.50%
Grant Russell	12,113,033 ⁽⁶⁾	5.43%	4.40%	4.25%
William Lee	— ⁽⁷⁾	%	%	%
Frank Zammataro	— ⁽⁷⁾	%	%	%
Kathryn Sayko	— ⁽⁷⁾	%	%	%
Bernard Perrine	— ⁽⁷⁾	%	%	%
Paul Churnetski	20,452,709 ⁽⁶⁾	9.17%	7.44%	7.17%
Directors, directors elect and executive officers as a group (6 people)	105,320,945 ⁽⁸⁾	38.38%	31.13%	30.01%

* 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 272,410,169 shares of our common stock issued and outstanding assuming the sale of 40,000,000 units in this offering and issuance of 2,697,130 shares to the Canadian agents under our fiscal advisory fee agreement with the Canadian agents and an estimated maximum 282,510,169 shares of our common stock issued and outstanding assuming the sale of 50,000,000 units in this offering and issuance of 2,797,130 shares to the Canadian agents under our fiscal advisory fee agreement with the Canadian agents, and in either case including 9,444,112 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 the date of this prospectus.
- (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 \$0.1382 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. 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, Georgia, Illinois, Maryland, Massachusetts, New Jersey, New York, Pennsylvania and Virginia. 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 \$0.0571 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) \$0.0571 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 to 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 66²/₃% 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 272,410,169 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 2,697,130 compensation shares) and 282,510,169 shares (assuming the sale of 50,000,000 units and the issuance of 2,797,130 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 \$0.0571 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 1.0% 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 272,410 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

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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	40,000,000 Units	50,000,000 Units
Common Stock	106,475,137(1)	48.3%	39.1%	37.1%
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, and Bolder Investment Partners, Ltd. as co-lead agents of our offering and with Canaccord Adams Inc. 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; provided that neither Canaccord Adams Inc. nor any FINRA member shall be entitled to reimbursement of any expenses incurred in connection with our offering. 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 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).

The agents must sell the number of units that will result in us receiving the minimum gross proceeds (Cdn\$6,000,000 or approximately US\$5.7 million) if any are sold. We have determined the US dollar equivalent of the minimum gross proceeds using a convenience translation of US\$1.00 = Cdn \$1.0579, the closing buying rate of the Bank of Canada on December 4, 2009. The actual US dollar equivalent may vary from this estimate at the time the minimum offering condition is met. 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 the agents and JP Morgan Chase Bank, National Association, as escrow agent, and other parties, the funds received by the agents in payment for the units sold in this offering will be deposited into a non-interest bearing escrow accounts and held until the closing of the offering. US funds and Canadian funds received in payment for the units will be held in segregated escrow accounts. 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 translated into the Canadian dollar equivalent at the closing buying rate of the Bank of Canada on the date of determination. 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. Investors who paid the purchase price in US funds will be returned US funds and investors who paid the purchase price in Canadian funds will be returned Canadian funds.

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 occurrence of any of the following events: the issuance of common stock, or securities convertible into or exercisable for common stock, in payment of a stock dividend; the subdivision or split of the common stock; the combination, consolidation or other reduction of the number of shares of outstanding common stock into a lesser number of shares; any offering to all or substantially all of the holders of outstanding common stock of rights to purchase additional shares of common stock, or securities convertible into or exercisable for common stock, at less than 95% of the current market price of the common stock; or any other issuance or distribution of common stock, or securities convertible into or exercisable for common stock, to all or substantially all of the holders of the outstanding common stock. 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)

Under the terms of the agency agreement with Canaccord Capital Corporation, Bolder Investment Partners, Ltd. and Canaccord Adams Inc., Canaccord Adams Inc. and Lighthouse Financial Group, as participating FINRA members will receive compensation, including agents 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 shares acquirable upon exercise of the warrants underlying the agents option represent 4% of the aggregate number of Units sold in the United States under the offering. Under the terms of the Fiscal Advisory Fee Agreement, Canaccord Capital Corporation, Bolder Investment Partners, Ltd. will be entitled to a fiscal advisory fee payable in shares of our common stock equal to 1.0% of our common stock issued and outstanding immediately upon the closing of the offering. The agents options and the securities underlying the agents options and the shares issued under the Fiscal Advisory Fee Agreement will be subject to the restrictions under FINRA Rule 5110(g), which provides that, with certain exceptions, the agent's options and those securities and shares may not be sold for 180 days after the closing of the offering. The number of agents options and the number of shares issuable under the Fiscal Advisory Fee Agreement will be determined by the aggregate number of Units sold in the Offering. Based on 220,268,927 shares of common stock issued and outstanding as of the date of this prospectus and a maximum of 50,000,000 Units issuable in the offering, and assuming the conversion into shares of common stock as of December 4, 2009 of all of the issued and outstanding shares of Series C Preferred Stock, together with all dividends thereon then accrued and unpaid, and \$75,000 in convertible debt, together with all interest thereon then accrued and unpaid, the maximum number of shares of common stock issuable under the Fiscal Advisory Fee Agreement is not expected to exceed 2,798,045 shares of common stock. The number of shares of common stock issuable to Canaccord Capital Corporation under the Fiscal Advisory Fee Agreement shall not exceed 699,282 shares of our common stock.

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 1.0% of our common stock issued and outstanding immediately upon the closing of the offering, which number is not expected to exceed 2,798,045 shares of our common stock. The number of shares of common stock issuable to Canaccord Capital Corporation under the Fiscal Advisory Agreement shall not exceed 699,282 shares of our common stock. Neither Canaccord Adams Inc. nor any FINRA member shall be entitled to any compensation under the fiscal advisory agreement. 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 December 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. Wildeboer Dellelce LLP will pass upon certain matters relating to the offering governed by the laws of the Province of Ontario, Canada. 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.

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As of the date hereof, the partners, counsel and associates of Boylan, Brown, Code, Vigdor & Wilson, LLP, Wildeboer Dellelce 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.

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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

	September 30, 2009	September 30, 2008	December 31, 2008	December 31, 2007	December 31, 2006
	(Unaudited)	(Unaudited)		(Restated)	
ASSETS					
Current Assets					
Cash and Cash Equivalents	\$ 183,265	\$ 229,825	\$ 818,719	\$ 364,856	\$ 569,171
Accounts Receivable, Net (Note 3)	820,676	1,042,526	1,413,611	2,908,224	1,977,103
Inventories (Note 4)	2,142,088	3,019,937	2,307,321	1,984,465	1,157,733
Prepaid Income Taxes	—	130,130	130,130	130,130	—
Prepaid Expenses and Other Assets	50,310	135,284	41,390	108,525	2,500
Total Current Assets	3,196,339	4,557,702	4,711,171	5,496,200	3,706,507
Tooling and Equipment, Net (Note 5)	626,924	873,772	825,924	857,170	781,979
Patents and Trademarks, Net (Note 6)	726,998	680,550	684,802	613,884	524,777
Total Assets	\$ 4,550,261	\$ 6,112,024	\$ 6,221,897	\$ 6,967,254	\$ 5,013,263
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities					
Accounts Payable	\$ 4,605,566	\$ 4,243,885	\$ 4,763,321	\$ 4,029,630	\$ 2,743,349
Lines of Credit (Note 7)	184,290	197,136	202,290	78,400	92,237
Current Portion of Long-Term Debt	500,000	500,000	500,000	—	200,000
Notes Payable (Note 25)	200,000	—	—	—	—
Current Portion of Capital Leases	105,731	139,800	139,800	171,778	155,625
Customer Deposits (Note 8)	716,689	791,169	729,677	46,637	125,584
Accrued Expenses (Note 9)	403,261	216,016	185,960	171,872	319,946
Income Taxes Payable	4,069	35,725	36,412	31,225	—
Total Current Liabilities	6,719,606	6,123,731	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)	499,708	284,208	379,208	784,208	991,188
Long Term Portion of Capital Leases (Note 12)	117,152	192,831	180,328	247,052	216,519
Accrued Interest	490,505	396,517	425,448	314,921	211,574
Cumulative Dividends Payable on Preferred Stock	400,124	299,024	324,299	223,199	122,099
Total Long-Term Liabilities	1,952,585	1,617,676	1,754,379	2,014,476	1,980,476
Total Liabilities	8,672,191	7,741,407	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 September 30, Respectively 218,268,927, 197,973,139 and 173,268,048 Shares Issued and Outstanding December 31, Respectively	220,269	218,269	218,269	197,972	173,268
Additional Paid-in Capital	12,992,046	12,349,455	12,700,413	10,238,589	6,115,622
Accumulated (Deficit)	(17,107,078)	(13,875,759)	(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	(4,121,930)	(1,629,383)	(2,089,942)	423,236	(603,954)
Total Liabilities and Stockholders' Equity	\$ 4,550,261	\$ 6,112,024	\$ 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 Paid-In Capital	Retained Deficit	Preferred Stock		Subscriptions Receivable	Total
	Shares	Amount			Shares	Amount		
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	—	—	—	(75,285)	—	—	—	(75,825)
Warrants Issued for Services	—	—	—	—	—	—	—	—
Stock Compensation Expense	—	—	144,301	—	—	—	—	144,301
Direct IPO Associated Expense	—	—	(137,531)	—	—	—	—	(137,531)
Adjustment of Subscriptions Receivable	—	—	(13,135)	—	—	—	94,181	81,046
Net Loss for the 9 months ended September 30, 2009	—	—	—	(2,343,977)	—	—	—	(1,487,565)
Balance — September 30, 2009 (Unaudited)	220,268,927	\$ 220,269	\$ 12,992,046	\$ (17,107,078)	168,500	\$ 169	\$ (227,336)	\$ (4,121,930)

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

VUZIX CORPORATION
F/K/A ICUITI CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	For Years Ended		
	December 31,		
	2008	2007	2006
	(Restated)	(Restated)	(Restated)
Sales of Products	\$ 10,941,181	\$ 4,701,004	\$ 6,910,866
Sales of Engineering Services	<u>1,548,703</u>	<u>5,445,375</u>	<u>2,627,442</u>
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	<u>1,018,989</u>	<u>3,376,133</u>	<u>1,497,642</u>
Total Cost of Sales	<u>8,788,905</u>	<u>6,783,473</u>	<u>5,767,550</u>
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	<u>510,133</u>	<u>374,078</u>	<u>276,989</u>
Total Operating Expenses	8,304,961	6,378,281	4,308,306
Loss from Operations	<u>(4,603,982)</u>	<u>(3,015,375)</u>	<u>(537,548)</u>
Other Income (Expense)			
Interest and Other (Expense) Income	188	2,549	313
Foreign Exchange Gain (Loss)	(24,216)		
Legal Settlement	—	96,632	—
Interest Expenses	<u>(260,977)</u>	<u>(241,692)</u>	<u>(179,019)</u>
Total Other Income (Expense)	<u>(285,005)</u>	<u>(142,511)</u>	<u>(178,706)</u>
Loss Before Provision for Income Taxes	(4,888,987)	(3,157,886)	(716,254)
Provision (Benefit) for Income Taxes (Note 13)	<u>5,212</u>	<u>(98,372)</u>	<u>3,700</u>
Net Loss	<u>\$ (4,894,199)</u>	<u>\$ (3,059,514)</u>	<u>\$ (719,954)</u>
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.

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	For Three Months Ended September 30,		For Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales of Products	\$ 2,513,685	\$ 1,854,182	6,964,002	6,344,169
Sales of Engineering Services	324,776	536,960	956,546	854,954
Total Sales	2,838,461	2,391,142	7,920,548	7,199,123
Cost of Sales — Products	1,680,996	1,470,639	4,550,045	4,644,206
Cost of Sales — Engineering Services	165,636	314,122	518,448	499,293
Total Cost of Sales	1,846,632	1,784,761	5,068,493	5,143,499
Gross Profit	991,829	606,381	2,852,055	2,055,624
Operating Expenses:				
Research and Development	645,172	769,365	1,591,070	2,730,346
Selling and Marketing	509,788	409,185	1,485,828	1,342,442
General and Administrative	548,931	578,629	1,539,660	1,551,259
Depreciation and Amortization	101,256	121,185	407,600	368,577
Total Operating Expenses	1,805,147	1,878,364	5,024,158	5,992,624
Loss from Operations	(813,318)	(1,271,983)	(2,172,103)	(3,937,000)
Other Income (Expense)				
Interest and Other (Expense) Income	3	15	63	181
Foreign Exchange Gain (Loss)	(7,065)	(7,063)	(12,034)	(7,097)
Interest Expenses	(67,547)	(60,522)	(189,643)	(159,541)
Total Other Income (Expense)	(74,609)	(67,570)	(201,614)	(166,457)
Loss Before Provision for Income Taxes	(887,927)	(1,339,553)	(2,373,717)	(4,103,457)
Provision (Benefit) for Income Taxes (Note 13)	(31,516)	850	(29,740)	4,500
Net Loss	(856,411)	\$ (1,340,403)	(2,343,977)	(4,107,957)
Basic and Diluted Loss per Share	\$ (0.0040)	\$ (0.0065)	(0.0110)	(0.0205)
Weighted-average Shares Outstanding — Basic and Diluted	220,268,927	210,989,038	220,046,705	203,673,777

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 Nine Months Ended September 30,		For Years Ended December 31,		
	2009 (Unaudited)	2008 (Unaudited)	2008	2007 (As restated)	2006
Cash Flows from Operating Activities					
Net Loss	\$(2,343,977)	\$(4,107,957)	\$(4,894,199)	\$(3,059,514)	\$ (719,954)
Non-Cash Adjustments					
Depreciation and Amortization	407,600	368,577	510,133	374,078	276,989
Stock-Based Compensation Expense	144,301	135,224	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	592,935	1,865,698	1,494,613	(931,121)	(1,226,116)
Inventories	165,233	(1,035,472)	(322,856)	(826,732)	(362,118)
Prepaid Income Taxes	130,130	—	—	(130,130)	—
Prepaid Expenses and Other Assets	(8,920)	(26,759)	67,135	(106,025)	4,919
Increase (Decrease) in Operating Liabilities					
Accounts Payable	(157,755)	214,255	733,691	1,580,255	1,496,609
Accrued Expenses	217,301	44,148	14,088	(175,574)	289,124
Customer Deposits	(12,988)	744,532	683,040	(78,947)	(117,722)
Income Taxes Payable	(32,343)	4,500	5,187	31,225	3,192
Accrued Commissions	—	—	—	(266,475)	266,475
Accrued Compensation	—	—	—	—	135,000
Accrued Interest	65,057	81,596	110,527	103,347	55,237
Net Cash Flows (Used in) Provided From Operating Activities	<u>(833,426)</u>	<u>(1,711,658)</u>	<u>(1,285,449)</u>	<u>(3,295,900)</u>	<u>120,053</u>
Cash Flows from Investing Activities					
Purchases of Tooling and Equipment	(164,631)	(344,139)	(424,166)	(180,310)	(370,188)
Investments in Patents and Trademarks	(86,165)	(107,710)	(125,638)	(136,433)	(109,048)
Net Cash Used in Investing Activities	<u>(250,796)</u>	<u>(451,849)</u>	<u>(549,804)</u>	<u>(316,743)</u>	<u>(479,236)</u>
Cash Flows from Financing Activities					
Net Change in Lines of Credit	(18,000)	118,736	123,890	(13,837)	(115,138)
Issuance of Common Stock	300,000	1,965,656	2,138,646	3,792,362	—
Issuance of Preferred Stock	—	—	—	—	407,650
Repayment of Capital Leases	(97,245)	(86,199)	(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	(137,531)	—	—	—	—
Proceeds from Notes Payable	200,000	—	—	—	—
Adjustment of Subscription Receivable	81,046	—	—	—	—
Proceeds from Long-Term Debt	120,500	—	95,000	—	725,000
Net Cash Flows Provided by Financing Activities	<u>448,768</u>	<u>2,028,476</u>	<u>2,289,116</u>	<u>3,408,328</u>	<u>874,569</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(635,454)	(135,031)	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	<u>\$ 183,265</u>	<u>\$ 229,825</u>	<u>\$ 818,719</u>	<u>\$ 364,856</u>	<u>\$ 569,171</u>
Supplemental Disclosures					
Interest Paid	124,586	77,945	149,214	138,345	179,019
Income Tax Credit (Refund)	(164,214)	—	—	—	—
Income Taxes Paid	40,596	425	425	3,725	1,950
Non-Cash Investing Transactions					
Equipment Acquired Under Capital Lease	15,096	49,973	89,833	221,633	317,932
Equipment Acquired Through Assumption of Long-Term Debt	—	—	—	—	62,010
Dividends Declared but Not Paid	75,825	75,825	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 nine months ended September 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 and nine months ended September 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.

FASB Codification Discussion

The Company follows accounting standards set by the Financial Accounting Standards Board, commonly referred to as the "FASB." The FASB sets generally accepted accounting principles (GAAP) that the Company follows to ensure the Company consistently report its financial condition, results of operations, and cash flows. Over the years, the FASB and other designated GAAP-setting bodies, have issued standards in the form of FASB Statements, Interpretations, FASB Staff Positions, EITF consensuses, AICPA Statements of Position, etc.

The FASB recognized the complexity of its standard-setting process and embarked on a revised process in 2004 that culminated in the release on July 1, 2009, of the FASB Accounting Standards Codification, sometimes referred to as the Codification or ASC. The Codification does not change how the Company accounts for its transactions or the nature of related disclosures made. However, when referring to guidance issued by the FASB, the Company now also refers to topics in the ASC. The above change was made effective by the FASB for periods ending on or after September 15, 2009. The Company updated references to GAAP to reflect the guidance in the Codification.

Segment Data, Geographic Information and Significant Customers

The Company is not organized by market and is managed and operated as one business. A single management team that reports to the chief operating decision maker comprehensively manages the entire business. The Company does not operate any material separate lines of business or separate business entities. Accordingly, the Company does not accumulate discrete information, other than product revenue and material costs, with respect to separate product lines and does not have separately reportable segments as defined by FASB ASC Topic 280, "Disclosures about Segments of an Enterprise and Related Information," (formerly SFAS No. 131).

VUZIX CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

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.

VUZIX CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 FASB ASC Topic 605 "Revenue Recognition," (formerly the SEC Staff Accounting Bulletin No. 104). 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

VUZIX CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

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 FASB ASC Topic 360-10, "Accounting for the Impairment or Disposal of Long-Lived Assets," (formerly SFAS No. 144).

Research and Development

Research and development costs, are expensed as incurred consistent with the guidance of FASB ASC Topic 730, "Research and Development," and include employee related costs, office expenses, third party design and engineering services, and new product prototyping costs.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 promulgated by FASB ASC Topic 260, "Earnings Per Share" and the conversion of any outstanding convertible preferred shares or notes payable that are-in-the-money, applying the as-if-converted method. However, 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

The Company accounts for share-based compensation to employees and directors in accordance with FASB ASC Topic 718 "Compensation Stock Expense," (formerly SFAS No. 123(R)) which 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 FASB ASC Topic 718, 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 18, *Stock-based Compensation Expense*, for further information.

Fair Value Measurements

The Company has adopted the provisions of FASB ASC Topic 820, "Fair Value Measurements and Disclosures" (formerly 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. ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820 permits an entity to measure certain financial assets and financial liabilities at fair value with

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

changes in fair value recognized in earnings each period. The adoption of FASB ASC Topic 820 was not material to the Company's consolidated financial statements or results of operations.

ASC 820 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 Financial Accounting Standards Board ("FASB") issued FASB ASC 810-10-65 (formerly SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements — an amendment of ARB No. 51*). FASB ASC 810-10-65 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent. Specifically, FASB ASC 810-10-65 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. FASB ASC 810-10-65 is effective as of January 1, 2009. The provisions of FASB ASC 810-10-65 are generally required to be applied prospectively, except for the presentation and disclosure requirements, which must be applied retrospectively. The adoption of FASB ASC 810-10-65 did not have a material effect on our consolidated financial statements.

In December 2007, the Financial Accounting Standards Board ("FASB") issued FASB ASC 805 (formerly SFAS 141(R), *Business Combinations*). FASB ASC 805 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. FASB ASC 805 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 FASB ASC 805 on our consolidated financial position and results of operations for the first three 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.

The Company adopted, as of July 1, 2009, the Financial Accounting Standards Board's ("FASB's") Accounting Standards Codification ("ASC") as the source of authoritative accounting principles recognized by the FASB to be applied to nongovernmental entities in the preparation of financial statements in conformity with GAAP. The ASC does not change authoritative guidance. Accordingly, implementing the ASC did not change any of our accounting, and therefore, did not have an impact on our consolidated results. References to authoritative GAAP literature have been updated accordingly.

On January 1, 2009, the Company adopted the provisions of FASB ASC topic 820 *Fair Value Measurements and Disclosures* (formerly SFAS No. 157, *Fair Value Measurements*), with respect to non-financial assets and liabilities. This pronouncement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The adoption of ASC topic 820 did not have a material impact on our consolidated financial statements.

On January 1, 2009, the Company adopted FASB ASC topic 815-40 "*Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock*" (formerly EITF 07-5). ASC topic 815-40 provides guidance on determining whether an instrument (or an embedded feature) is indexed to an entity's own stock, which

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

would qualify as a scope exception under prior authoritative literature FASB No. 133, "Accounting for Derivative Instruments and Hedging Activities" ASC 815-40 is effective for fiscal years beginning after December 15, 2008. The adoption ASC topic 815-40 did not have a material impact on our consolidated financial statements.

On January 1, 2009, the Company adopted the provisions of FASB ASC Topic 320-10-65 (formerly FSP FAS 107-1 and APB 28-1) "Interim Disclosures about Fair Value of Financial Instruments". This update requires fair value disclosures for financial instruments that are not currently reflected on the balance sheet at fair value on a quarterly basis. The adoption of ASC Topic 320-10-65 did not have a material impact on our consolidated financial statements.

On January 1, 2009, the Company adopted the provisions of ASC 815-10 (formerly FASB Statement 161, "Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133"). FASB ASC 815-10 requires enhanced disclosures about an entity's derivative and hedging activities. FASB ASC 815-10 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 with early application encouraged. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

In May 2009, the Company adopted FASB ASC topic 855, "Subsequent Events" (formerly SFAS No. 165). This Statement sets forth: (i) 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; (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of ASC topic 855 did not have a material impact on our consolidated financial statements. We have evaluated the period beginning October 1, 2009 through November 16, 2009, the date our financial statements were issued, and concluded there were no events or transactions occurring during this period that required recognition or disclosure in its financial statements.

In June 2009, the FASB issued ASC topic 105 "Generally Accepted Accounting Principles", (formerly Statement of Financial Standards (SFAS) No. 168, *The Hierarchy of Generally Accepted Accounting Principles*). ASC topic 105 contains guidance which reduces the U.S. GAAP hierarchy to two levels, one that is authoritative and one that is not. This pronouncement is effective September 15, 2009. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

In September 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-08, "Earnings Per Share" Amendments to Section 260-10-S99. This Codification Update represents technical corrections to Topic 260-10-S99, Earnings per Share, based on EITF Topic D-53, "Computation of Earnings Per Share for a Period that Includes a Redemption or an Induced Conversion of a Portion of a Class of Preferred Stock" and EITF Topic D-42, The Effect of the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock goes into effect in the period that includes a redemption or induced conversion. Adoption of this new guidance did not have a material impact on our consolidated financial statements.

In October 2009, the FASB issued authoritative guidance on ASC 605-25 "Revenue Recognition — Multiple-Deliverable Revenue Arrangement" that will become effective beginning July 1, 2010, with earlier adoption permitted. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. We believe adoption of this new guidance will not have a material impact on our consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 3 — Accounts Receivable, Net

Accounts receivable consisted of the following:

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

Note 4 — Inventories, Net

Inventories consisted of the following:

<u>December 31,</u>	<u>2008</u>	<u>2007</u>
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	<u>\$2,307,321</u>	<u>\$1,984,465</u>

Note 5 — Tooling and Equipment, Net

Tooling and equipment consisted of the following:

<u>December 31,</u>	<u>2008</u>	<u>2007</u>
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	<u>\$ 825,924</u>	<u>\$ 857,170</u>

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

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

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.

VUZIX CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

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:

<u>December 31,</u>	<u>2008</u>	<u>2007</u>
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	<u>\$185,960</u>	<u>\$171,872</u>

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	<u>55,431</u>
Accrued Warranty Obligations at December 31, 2006	\$ 42,475
Actual Warranty Experience	(48,710)
Warranty Provisions	<u>79,299</u>
Accrued Warranty Obligations at December 31, 2007	\$ 73,064
Actual Warranty Experience	(71,244)
Warranty Provisions	<u>105,045</u>
Accrued Warranty Obligations at December 31, 2008	<u>\$106,865</u>

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

VUZIX CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

\$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.

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	<u>\$379,208</u>	<u>\$784,208</u>

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 September 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.

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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.

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

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

<u>December 31,</u>	<u>Amount</u>
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	<u>\$320,128</u>

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

<u>December 31,</u>	<u>2008</u>	<u>2007</u>
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	<u>\$ 328,313</u>	<u>\$ 443,220</u>

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:

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

VUZIX CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

<u>December 31,</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
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)	<u>\$5,212</u>	<u>\$(98,372)</u>	<u>\$3,700</u>

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

<u>December 31,</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
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	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>

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,		
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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

VUZIX CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 September 30, 2009 total accrued dividends were \$400,124 or an average of \$2.37 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	<u>4,998,771</u>	<u>6,171,008</u>

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.

VUZIX CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 – \$ 0.08750
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
	<u>13,079,014</u>	<u>6.59</u>	<u>\$ 0.0914</u>

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
	<u>9,582,619</u>	<u>5.70</u>	<u>\$ 0.0594</u>

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
	<u>3,496,395</u>	<u>9.02</u>	<u>\$ 0.1930</u>

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 nine month period ended September 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 nine-month period ended September 30, 2009, options to purchase a total of 110,400 shares were forfeited and no options were exercised.

VUZIX CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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	<u>\$180,298</u>	<u>\$111,438</u>	<u>\$18,418</u>
Decrease in Earnings Per Share:			
Basic and Diluted	<u>\$ 0.0008</u>	<u>\$ 0.0006</u>	<u>\$0.0001</u>

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	<u>4.39%</u>	<u>4.39%</u>	<u>4.49%</u>

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 nine months ending September 30, 2009 and 2008 was \$144,301 and \$135,854 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 June 2010 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:

<u>2009</u>	<u>2010</u>	<u>Total Minimum Lease Payments</u>
\$66,765	\$23,835	\$ 90,600

For the lease agreements described above, the Company is required to pay the pro rata share of the real property taxes and assessments, expenses and other charges associated with these facilities.

Note 21 — Employee Benefit Plans

The Company has a Section 401(k) Savings Plan which covers employees who meet certain age and length of service requirements. To date the plan is comprised of 100% employee deferrals.

Note 22 — Litigation

The Company is not subject to any legal proceedings or claims at the current time. The Company indemnifies its directors and officers who are, or were, serving at the Company's request in such capacities. The fair value of the indemnifications that the Company issued during 2008 was not material to the Company's financial position, results of operations or cash flows.

VUZIX CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 23 — Product Revenue

The following table represents the Company's total sales for 2008, 2007 and 2006 classified by product category:

December 31,	2008	2007	2006
	(Restated)		
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 nine months ending September 30, 2008 and 2007 classified by product category:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Consumer Video Eyewear	\$ 819,593	\$ 907,006	\$2,564,984	\$2,092,435
Defense Products	1,687,315	899,681	4,374,452	4,197,539
Engineering Services	324,775	536,961	956,546	854,954
Low Vision Products	6,778	47,494	24,566	54,195
Total	\$2,838,461	\$2,391,142	\$7,920,548	\$7,199,123

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.

VUZIX CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

Included in current liabilities are \$200,000 of Notes Payable borrowed from three individual lenders (including \$50,000 from an employee shareholder of the Company) in August and September 2009. The notes bear interest at an annual rate of 18.0% and \$150,000 was due on October 31, 2009 and the remaining \$50,000 is due November 24, 2009. See Note 27.

Note 26 — Current and Prior-Period Restatements and Reclassifications

The accompanying consolidated financials for 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 that period and had no overall effect on the net loss reported or any other of the financial statements. The sales numbers in Note 23 have been restated by the same amounts. The change recorded was a decrease \$(74,603) in both Sales and Cost of Sales.

The accompanying consolidated financials for the 2008, 2007 and 2006 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

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.

VUZIX CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- 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).

Note 27 — Subsequent Events

Included in current liabilities are \$200,000 of Notes Payable borrowed from three individual lenders (including \$50,000 from an employee shareholder of the Company) in August and September 2009. The notes bear interest at an annual rate of 18.0% and \$150,000 was due on October 31, 2009 and the remaining \$50,000 is due November 24, 2009. See Note 27.

As of November 18, 2009, the holders of the loans payable on October 31, 2009 have not demanded payment or otherwise exercised any remedies resulting from our failure to pay the loans at maturity.

LOW VISION AIDS

Digital display solutions for individuals with low vision.



SightMate™ LV920
Video eyewear that optimizes residual peripheral vision. Designed for individuals with macular degeneration.



SightMate™ Combo Viewer
iWear® AV920 video eyewear combined with a third-party digital mouse magnifier helps individuals with impaired vision read small print.



SightMate™ Freedom Viewer Combo
iWear® AV920 video eyewear combined with a third-party handheld electronic magnifier helps individuals with impaired vision read small print.



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



PROSPECTUS

Until _____, 2009, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This requirement is in addition to the dealers' obligation to deliver a prospectus when acting as agents and with respect to their unsold allotments or subscriptions.

_____, 2009

Alternate page for Canadian Prospectus

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".

FINAL BASE PREP PROSPECTUS

Initial Public Offering

December ●, 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 up to 36 months after the closing date of the Offering (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 "SEC"). 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".

In accordance with the requirements of the SEC, the Offering Price for Units offered in the United States is payable in US dollars, and the 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 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 U.S. Prospectus) and for purposes of determining whether we have received gross proceeds for the Minimum Offering, the US funds received will be translated into Canadian dollar equivalents at the US-Canadian dollar exchange rate prevailing at the date of determination. 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. The TSX Venture Exchange (the "TSX-V") has conditionally approved the listing of the shares of our common stock under the symbol "VZX" and the Warrants under the symbol "VZX.WT". 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 Units equal to 12.5% of the aggregate number of Units sold under the Offering, at the Offering Price per Unit, 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 Units 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 Units 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.

(Continued on the next page)

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- (4) In consideration of certain fiscal advisory services rendered by the Agents to us pursuant to an amended and restated fiscal advisory fee agreement between us and the Agents dated June 29, 2009 as amended and restated as of November 12, 2009 and further amended on December 7, 2009 (the "Amended and Restated Fiscal Advisory Fee Agreement"), we have agreed to issue to the Agents that number of shares of our common stock equal to 1.0% of the number of issued and outstanding shares of our common stock outstanding on the closing of the Offering, which number is not expected to exceed 2,798,045 shares of our common stock, as of the date hereof. The distribution of these shares 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. The number of shares of common stock issuable to Canacord Capital Corporation under the amended and Restated Fiscal Advisory Fee Agreement shall not exceed 699,282 shares of our common stock. See "Material Contracts".
- (5) Before deducting the expenses of the Offering estimated at Cdn\$743,000 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.

The following table summarizes the options granted by us to the Agents pursuant to the Offering:

<u>Agents' Position</u>	<u>Maximum Number of Securities Held</u>	<u>Exercise Period</u>	<u>Exercise Price</u>
Compensation Options ⁽¹⁾	12.5% of the number of Units 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 Units 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 Units 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".

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. See "Plan of Distribution".

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. Provided that the Minimum Offering is subscribed for, it is expected that the closing of the Offering will occur on or about ●, 2009, subject to postponement, as the Company and the Agents may agree, to a date not later than 90 days from the date of receipt for this prospectus, or such later date as may be agreed to by the Company and the Agents with the consent of applicable securities regulatory authorities.

Vuzix is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction. Although we have appointed Wildeboer Dellelce Corporate Services Inc. as our agent for service of process in Toronto, Ontario, it may not be possible for investors to enforce judgments obtained in Canada against us. See "Enforcement of Legal Rights".

Unless the context requires otherwise, references to the "Company", "Vuzix", "we", "us", or "our" refer to Vuzix Corporation and its subsidiary.

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CURRENCY AND EXCHANGE RATE DATA

We measure and report our financial results in U.S. dollars. The following table sets forth, for the periods indicated, the high, low, average and period-end noon buying rates of exchange for one U.S. dollar in Canadian dollars published by the Bank of Canada. Although obtained from sources believed to be reliable, the data is provided for informational purposes only, and the Bank of Canada does not guarantee the accuracy or completeness of the data. No representation is made that the U.S. dollar amounts have been, could have been or could be converted into Canadian dollars at the noon buying rate on such dates or any other dates.

	Year Ended December 31			Nine Month Period Ended September 30	
	2008	2007	2006	2009	2008
Highest rate during period	\$1.2969	\$1.1853	\$1.1726	\$ 1.3000	\$ 1.0796
Lowest rate during period	0.9719	0.9170	1.0990	1.0613	0.9719
Average rate during period	1.0660	1.0748	1.1342	1.1701	1.0184
Rate at the end of period	1.2246	0.9881	1.1653	1.0722	1.0599

On December 4, 2009, the noon buying rate of the Bank of Canada was U.S.\$1.00 = Cdn\$1.0517. **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\$1.0579, the closing buying rate of the Bank of Canada on December 4, 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

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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 6²/₃% 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 6²/₃% 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

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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. In accordance with the requirements of the SEC, the Offering Price for Units offered in the United States is payable in US dollars, and the 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 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 U.S. Prospectus) and

will be translated into Canadian dollar equivalents at the then prevailing US-Canadian dollar exchange rate for the purposes of determining whether the Minimum Offering of Cdn\$6,000,000 has been subscribed for.

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 this prospectus, or such later date as may be agreed to by the Company and the Agents with the consent of applicable securities regulatory authorities.

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, the Agents, Canaccord Adams Inc., Lighthouse Financial Group LLC and JP Morgan Chase Bank, National Association, as escrow agent (the "Escrow Agreement"), 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 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 Shares or Warrants, 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.

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. The TSX-V has conditionally approved the listing of the Shares and Warrants distributed under this prospectus under the symbols "VZX" and "VZX.WT", respectively. 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 Units equal to 12.5% of the aggregate number of Units sold under the Offering, at the Offering Price per Unit, 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 Units 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 Units 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 Amended and Restated Fiscal Advisory Fee Agreement, we have agreed to issue to the Agents that number of shares of our common stock equal to 1.0% of the number of issued and outstanding shares of our common stock outstanding on the closing of the Offering, which number is not expected to exceed 2,798,045 shares of our common stock as of the date hereof. The distribution of these shares of our common stock to the Agents pursuant to the Amended and Restated 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. The number of shares of common stock issuable to Canaccord Capital Corporation under the Amended and Restated Fiscal Advisory Fee Agreement shall not exceed 699,282 shares of our common stock. 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.

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.

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:

<u>Date of Issuance</u>	<u>Nature of Securities Issued</u>	<u>Number of Shares of Common Stock Issued or Issuable</u>	<u>Issue Price Per Share of Common Stock</u>	<u>Aggregate Issue Price</u>
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	—

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.

Except for the Shares and Warrants issuable pursuant to the Offering (including the issuance of shares of our common stock pursuant to the Amended and Restated 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.

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" and Exhibit 4.3 in the U.S. Prospectus.
- (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 10.7 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 10.10 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 10.15 in the U.S. Prospectus.
- (e) Loan Agreement dated as of October 2008 by and between Vuzix and Paul J. Travers. See Exhibit 10.16 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 10.17 in the U.S. Prospectus.

Alternate page for Canadian Prospectus

- (g) Convertible Promissory Note dated September 19, 2006 in the original principal amount of \$500,000 by Vuzix to Sally Hyde Burdick. See Exhibit 10.20 in the U.S. Prospectus.
- (h) Amended and Restated Fiscal Advisory Fee Agreement dated as of June 29, 2009, as amended and restated as of November 12, 2009, between Vuzix and the Agents. See Exhibit 10.22 in the U.S. Prospectus.
- (i) Escrow Agreement. See “Plan of Distribution” and Exhibit 10.21 in the U.S. Prospectus.
- (j) Escrow agreement in accordance with National Policy 46-201 *Escrow for Initial Public Offerings* (“NP 46-201”) entered into as of the closing date of the Offering among each Principal (as defined in NP 46-201) and Computershare Investor Services Inc. as escrow agent. See “Shares Eligible for Future Sale” and Exhibit 10.24 in the U.S. Prospectus.
- (k) Amendment dated December 7, 2009 to Amended and Restated Fiscal Advisory Fee Agreement dated November 12, 2009, between Vuzix and the Agents. See Exhibit 10.23 in the U.S. Prospectus.

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.

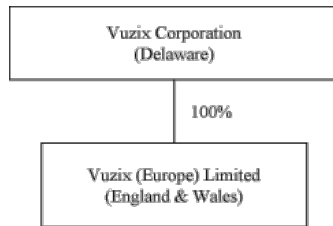
ELIGIBILITY FOR INVESTMENT

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.

CERTIFICATE OF VUZIX CORPORATION

Dated December ●, 2009

This 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 and Treasurer

On behalf of the Board of Directors of Vuzix Corporation

By: (Signed) William Lee
Director

By: (Signed) Kathryn Sayko
Director

CDN-C-1

CERTIFICATE OF THE AGENTS

Dated December ● , 2009

To the best of our knowledge, information and belief, this 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

CDN-C-2

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.

	<u>Amount to be Paid</u>
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	<u>\$ 10,000</u>
Total	<u>\$706,953</u>

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;

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- 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.

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(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.

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(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

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(§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. 6 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 7th day of December, 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. 6 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
<u>/s/ Paul J. Travers</u> Paul J. Travers	President, Chief Executive Officer and Director <i>(Principal Executive Officer)</i>	December 7, 2009
<u>/s/ Grant Russell</u> Grant Russell	Chief Financial Officer, Secretary and Treasurer <i>(Principal Financial and Accounting Officer)</i>	December 7, 2009
<u>/s/ William Lee</u> William Lee	Director	December 7, 2009

Index to Exhibits

- 1.1(4) 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(4) Specimen certificate evidencing shares of common stock
 - 4.2(4) Specimen common stock purchase warrant
 - 4.3 Form of Warrant Indenture between the registrant and Computershare Trust Company of Canada Certain instruments defining the rights of the holders of long-term debt of the registrant, none of which authorize a total amount of indebtedness in excess of 10% of the total assets of the registrant and its subsidiary on a consolidated basis, have not been filed as exhibits. The registrant hereby agrees to furnish a copy of any of these agreements to the Commission upon request
 - 5.1 Opinion of Boylan, Brown, Code, Vigdor & Wilson, LLP
 - 5.2 Opinion of Wildeboer Dellelce LLP
 - 10.1(1)+ 2007 Amended and Restated Stock Option Plan
 - 10.2(1)+ 2009 Stock Option Plan
 - 10.3(2)+ 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)
 - 10.8(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† Distribution and Manufacturing Agreement dated August 27, 2009 between the registrant and YuView Holdings Ltd.
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- 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(5) 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
- 10.22(5) Amended and Restated Fiscal Advisory Fee Agreement dated as of November 12, 2009 by and between the registrant and Canaccord Capital Corporation and Bolder Investment Partners Ltd.
- 10.23 Amendment No. 1 to Amended and Restated Fiscal Advisory Fee Agreement dated as of November 12, 2009 by and among the registrant and Canaccord Capital Corporation and Bolder Investment Partners Ltd.
- 10.24 Form of Escrow Agreement by and among the Registration of Computershare Investor Services, Inc., as escrow agent, and the Securityholders (as defined therein) entered into pursuant to Canadian National Policy 46-201 and TSX Venture Exchange Policy 5.4
- 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 Consent of Boylan, Brown, Code, Vigdor & Wilson, LLP (included in Exhibit 5.1)
- 23.4 Consent of Wildeboer Dellelce LLP (included in Exhibit 5.2)
- 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

(4) Previously filed as exhibit to Amendment No. 4 to the Registration Statement on Form S-1 filed November 10, 2009

(5) Previously filed as exhibit to Amendment No. 5 to the Registration Statement on Form S-1 filed November 27, 2009

+ Management contract or compensation plan or arrangement

† Confidential treatment requested as to certain portions

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 (1/2) 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 (1/2) 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 Warranholders (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 Warrantheolders as defined in section 5.11 and includes a written instrument signed by Warrantheolders 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;

“**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 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 2.02, 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 SETTLEMENT 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 available 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 available 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 three 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 depository 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 Warranholders' Request, convene a meeting of the Warranholders provided that the Warrant Agent is indemnified and funded to its reasonable satisfaction by the Corporation or by the Warranholders signing such Warranholders' 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 Warranholders' Request and indemnity given as aforesaid, the Corporation or such Warranholders, 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 Warranholders shall be given to the Warranholders 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 Warranholders 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 Warranholders, 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 Warranholders 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 Warranholders a quorum shall consist of Warranholders 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 Warranholders shall not be present within thirty (30) minutes from the time fixed for holding any meeting, the meeting, if summoned by the Warranholders or on a Warranholders' 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 Warranholders unless a quorum is present at the commencement of the meeting. At the adjourned meeting the Warranholders 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 Warrantheolders 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 Warrantheolders 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 Warrantheholder or as proxy for one or more absent Warrantheolders, or both, shall have one vote. On a poll, each Warrantheholder 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 Warrantheholder. 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 Warrantheolders 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 Warrantheolders and the conduct of business thereat.

Any regulations so made shall be binding and effective on Warranholders 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 Warranholder, or be entitled to vote or be present at the meeting in respect thereof (subject to section 5.09), shall be Warranholders 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 Warranholders and the Warrant Agent may attend any meeting of the Warranholders 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 Warranholders 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 Warranholders and/or the Warrant Agent (subject to consent of the Warrant Agent) in its capacity as warrant agent hereunder or on behalf of the Warranholders 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 Warranholders;
- (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 Warranholders 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 Warranholder 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 Warranholders;
- (f) to direct any Warranholder 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 Warranholder 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 Warranholders 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 Warrantheolders 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 Warrantheolders holding at least 10% of the aggregate number of the then outstanding Units and passed by the affirmative votes of Warrantheolders 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, Warrantheolders 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 Warrantheolders or on a Warrantheolders’ 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 Warrantheolders 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 Warrantheolders 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 Warrantheolders 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 Warrantheolders 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 Warrantheolders 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 Warrantheolders;
- (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 Warrantheolders 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 Warrantheolders 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 Warrantheolders 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 and 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 Unit Warrants, if and only if such Compensation Unit Warrants 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 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 (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 appearing below; 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 set forth below) 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 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 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 Warranholder, the Warranholder 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 three 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 Warrantheader 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)

Letterhead of Boylan, Brown, Code, Vigdor & Wilson, LLP

December 7, 2009

Vuzix Corporation
75 Town Centre Drive
Rochester, NY 14623

Ladies and Gentlemen:

We have acted counsel to Vuzix Corporation, a Delaware corporation (the "Company"), in connection with the registration under the Securities Act of 1933, as amended (the "Act") of the offer and sale on a best efforts to public offering (the "Offering") of up to 50,000,000 shares (the "Shares") of the Company's common stock, \$0.001 par value per share (the "Common Stock") and warrants (the "Warrants") to purchase up to 25,000,000 shares of Common Stock (the "Warrant Shares"), on the Company's Registration Statement on Form S-1, Registration No. 333-160417, filed with the U.S. Securities and Exchange Commission (the "Commission") on July 2, 2009 (as amended to date, the "Registration Statement"). The Shares and the Warrants are being offered as units ("Units") and upon closing of the Offering, the Units will separate and the Common Stock and the Warrants will be separately transferrable. The Registration Statement also covers (i) shares of Common Stock (the "Agent Shares") issuable upon exercise of options (the "Agent Options") granted to the Company's agents in the Offering (the "Agents"); (ii) warrants issuable upon exercise of the Agents Options (the "Agent Warrants"); and (iii) shares of Common Stock issuable upon exercise of the Agent Warrants (the "Agent Warrant Shares"), in an amount equal to 8.0% of the aggregate number of shares of Common Stock and Warrants sold in the Offering. The Warrants will be issued pursuant to a warrant indenture (the "Warrant Indenture") between the Company and Computershare Trust Company of Canada, as warrant agent thereunder.

This opinion is being furnished to you in accordance with the requirements of Item 601(b)(5) of Regulation S-K under the Act, in connection with the Company's filing of Amendment No. 6 to the Registration Statement with the Commission on December 7, 2009 and for no other purpose.

In connection with rendering this opinion, we have examined the originals, or certified, conformed or reproduction copies, of all such records, agreements, instruments and documents as we have deemed relevant or necessary as the basis for the opinion hereinafter expressed. In all such examinations, we have assumed the genuineness of all signatures on original or certified copies and the conformity to original or certified copies of all copies submitted to us as conformed or reproduction copies. Insofar as this opinion may relate to securities to be issued in the future, we have assumed that all applicable laws, rules and regulations in effect at the time of such issuance are the same as such laws, rules and regulations in effect as of the date hereof. As to various questions of fact relevant to this opinion, we have relied upon, and assumed the accuracy of, certificates and oral or written statements and other information of or from public officials, officers or representatives of the Company, and others. To the extent necessary to render this opinion, we have assumed, without any independent investigation, the matters set forth in the legal opinion dated as of the date hereof of Wildeboer Dellelce LLP, Canadian counsel to the Company. We express no opinion as to any of the matters set forth in that legal opinion.

Our opinion herein is based solely upon the Delaware General Corporation Law, applicable provisions of the Constitution of the State of Delaware and reported judicial interpretations interpreting these laws. We express no opinion with respect to any other laws (including, without limitation, the application of the securities or "Blue Sky" laws of any state).

Based upon and subject to the foregoing and to the other qualifications and limitations set forth herein, we are of the opinion that:

1. The execution, delivery and performance by the Company of the Warrant Indenture have been duly authorized by all necessary corporate action of the Company.
 2. The Shares, when issued and delivered against payment therefor in accordance with the terms of the Registration Statement, and the Warrant Shares and the Agent Warrant Shares, when issued upon the exercise of Warrants and the Agent Warrants in accordance with their respective terms and upon payment of the consideration therefor as provided therein, will be duly authorized, validly issued, fully paid and nonassessable.
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3. The Warrants and the Agent Warrants, when duly executed and delivered by the Company against payment therefor as described in the Registration Statement, will be duly authorized, validly issued, fully paid and nonassessable.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to this firm under the caption "Legal Matters" in the prospectus forming a part of the Registration Statement. In giving this consent, we do not hereby admit that we are in the category of persons whose consent is required under Section 7 of the Act.

Very truly yours,

BOYLAN, BROWN,
CODE, VIGDOR & WILSON, LLP

/s/ Robert F. Mechur

Robert F. Mechur

LETTERHEAD OF WILDEBOER DELLELCE LLP

December 7, 2009

Vuzix Corporation
75 Town Centre Drive
Rochester, NY 146238

Dear Sirs:

Re: Vuzix Corporation — Public Offering of Units

We have acted as Ontario counsel to Vuzix Corporation (the “**Corporation**”) in connection with the proposed issue and sale by the Corporation (the “**Offering**”) of up to 50,000,000 units (“**Units**”) of the Corporation pursuant to an agency agreement substantially in the form presented to us on the date hereof (the “**Agency Agreement**”) to be entered into between the Corporation and Canaccord Capital Corporation, Canaccord Adams Inc. and Bolder Investment Partners, Ltd. (collectively, the “**Agents**”). Each Unit consists of one share of common stock of the Corporation, \$0.001 par value per share (a “**Share**”) and one-half of one Share purchase warrant of the Corporation (each whole Share purchase warrant, a “**Warrant**”). Each Warrant will entitle the holder thereof to purchase one additional share of common stock of the Corporation (a “**Warrant Share**”) 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 the Offering.

The Units have been offered pursuant to the Corporation’s Registration Statement on Form S-1, Registration No. 333-160417, filed with the U.S. Securities and Exchange Commission (the “**Commission**”) on July 2, 2009 (as amended to date, the “**Registration Statement**”).

The Registration Statement also covers (i) shares of common stock (the “**Agent Shares**”) issuable upon exercise of options (the “**Agent Options**”) granted to the Agents in an aggregate amount equal to 12.5% of the aggregate number of Shares sold pursuant to the Offering; (ii) warrants issuable upon exercise of the Agent Options (the “**Agent Warrants**”) in an aggregate amount equal to 12.5% of the aggregate number of Warrants sold pursuant to the Offering; and (iii) shares of common stock issuable upon exercise of the Agent Warrants (the “**Agent Warrant Shares**”).

This opinion is being furnished to you in accordance with the requirements of Item 601(b)(5) of Regulation S-K under the *Securities Act of 1933*, as amended (the “**Act**”), in connection with the Corporation’s filing of Amendment No. 6 to the Registration Statement with the Commission on December 7, 2009 and for no other purpose.

Examinations

As Ontario counsel to the Corporation, we have participated, together with: (i) Boylan, Brown, Code, Vigdor & Wilson, LLP, United States counsel to the Corporation; (ii) McCullough O’Connor Irwin LLP, Canadian counsel to the Agents; and (iii) Dorsey & Whitney LLP, United States counsel to the Agents, in:

- (a) the preparation of the warrant indenture (the “**Warrant Indenture**”) between the Corporation and Computershare Trust Company of Canada, as warrant agent thereunder;
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- (b) the preparation of the form of certificate evidencing the Warrants (the “**Warrant Certificate**”); and
- (c) the preparation of the form of certificate evidencing the Agent Options (the “**Agent Option Certificate**”).

The Warrant Indenture, Warrant Certificate and Agent Option Certificate are referred to herein collectively as the “**Agreements**”.

Assumptions and Qualifications

In rendering the opinions below, we have assumed that the definitive Agreements will be substantially in the forms provided to us.

We have assumed that (i) the Corporation is organized and validly existing under the laws of its jurisdiction of incorporation; (ii) the Corporation has the corporate power and capacity to execute, deliver and perform its obligations under the Agreements; (iii) the Corporation has taken, or prior to the time of execution and delivery of the Agreements will take, all necessary corporate action to authorize the execution and delivery of the Agreements and the performance of its obligations thereunder; and (iv) the execution, delivery and performance of the Agreements does not constitute or result in a violation or breach of, or a default under (A) the Corporation’s constating, charter or organizational documents (as applicable), or (B) any law, rule, or regulation of the Corporation’s jurisdiction of incorporation.

We have assumed that, insofar as any obligation under the Agreement is to be performed in any jurisdiction outside the Province of Ontario, its performance will not be illegal or unenforceable by virtue of the laws of that other jurisdiction.

Our opinion is subject to the following qualifications:

- (a) the enforcement of the Agreements may be limited by any applicable bankruptcy, reorganization, arrangement, liquidation, winding-up, insolvency, moratorium or other similar law relating to or affecting creditors’ rights generally and the equitable or statutory power of the courts to stay proceedings before them, to stay the execution of judgments and to grant relief against forfeiture;
 - (b) the enforcement of the Agreements is subject to and may be limited by general principles of equity, including the principle that the granting of equitable remedies such as specific performance and injunction is subject to the discretion exercisable by courts of competent jurisdiction;
 - (c) the enforcement of any rights against the Corporation under the Agreements with respect to indemnity or contribution may be limited by applicable law and may or may not be ordered by a court on grounds of public policy and may therefore not be available in any particular instance;
 - (d) we express no opinion with respect to:
 - (i) the effect of any provision of the Agreements which purports to allow the severance of invalid, illegal or unenforceable provisions or restrict their effect; or
-

- (ii) the validity, binding nature or enforceability of any provision of the Agreements which suggests that modifications, amendments or waivers that are not in writing will not be effective;
- (e) a court in the Province of Ontario may decline to enforce provisions in any document which purport to allow a determination, calculation or certificate of a party thereto as to any matter provided for therein to be final, conclusive or binding upon any other party thereto if such determination is found to be inaccurate on its face or to have been reached or made on any arbitrary or fraudulent basis; and
- (f) enforceability of the Agreements will be subject to the limitations contained in the *Limitations Act 2002* (Ontario) and, if a court determined that any of the provisions of the Agreements constituted an attempt to vary or exceed the limitation periods set out in the said Act, the time periods in the Act would apply notwithstanding such provisions.

Laws

We are solicitors qualified to practice law in the Province of Ontario and we express no opinions as to any laws or any matters governed by any laws other than the laws of the Province of Ontario and the federal laws of Canada applicable therein which are in effect on the date hereof.

We expressly disclaim any obligation to amend or update the opinions below in the event of any change in such laws after the date hereof.

Reliance

The opinions expressed below are based on legislation and regulations in effect on the date hereof. We have considered such questions of law and examined such statutes, regulations, public and corporate records and certificates of officers of the Corporation and other documents as we have considered appropriate and necessary for the purpose of our opinion.

Opinion

Based and relying upon and subject to the foregoing and the qualifications hereinafter expressed, we are of the opinion that at the date hereof, each of the Agreements will constitute a legal, valid and binding obligation of the Corporation, enforceable against the Corporation by the other parties thereto in accordance with the terms thereof when the Agreements have been duly executed and delivered by the Corporation.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to this firm under the caption "Legal Matters" in the prospectus forming a part of the Registration Statement. In giving this consent, we do not hereby admit that we are in the category of persons whose consent is required under Section 7 of the Act.

This opinion is furnished to you in connection with the filing of the Registration Statement, and is not to be used, circulated, quoted or otherwise relied upon for any other purpose, except as expressly provided in the preceding paragraph or with our prior written consent. This opinion is as of the date hereof and we disclaim any undertaking to update this opinion after the date hereof.

Wildeboer Dellelce LLP

PAGE 4

Yours very truly,

WILDEBOER DELLELCE LLP

/s/ Robert Fonn

Robert Fonn

CERTAIN CONFIDENTIAL PORTIONS OF THIS EXHIBIT WERE OMITTED AND REPLACED WITH “[***]”. A COMPLETE VERSION OF THIS EXHIBIT HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO AN APPLICATION REQUESTING CONFIDENTIAL TREATMENT UNDER RULE 406 OF THE SECURITIES ACT OF 1933.

Distribution and Manufacturing Agreement

This Distribution and Manufacturing Agreement (the “Agreement”), effective August 27, 2009 (the “Effective Date”), is made between **VUZIX Corporation**, whose principal place of business is located at 75 Town Centre Drive, Rochester, New York 14623 U.S.A. (herein referred to as “VUZIX”) and YuView Holdings Ltd., with its registered office at 800-885 West Georgia Street, Vancouver, B.C. V6C 3H1 (hereinafter referred to as “RESELLER”) each a “Party” and, collectively, the “Parties”.

NOW THEREFORE in consideration of the mutual covenants and agreements herein and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties agree as follows:

1. GRANT OF LICENSE AND AREA OF RESPONSIBILITY

- 1.1 VUZIX grants to RESELLER the exclusive right to sell, promote and distribute the products listed in Schedule B (the “Products”) in the area(s) (the “Territory”) described on Schedule A - I (the “License”).
- 1.2 This License is limited to the Territory, and does not extend to any other area or market. No exporting or re-exporting of Products to any customers outside of the Territory, either directly or indirectly, is authorized unless written authorized permission is granted by VUZIX.
- 1.3 The License may be terminated by VUZIX if RESELLER fails to meet the sales volume goals established by VUZIX and RESELLER for any period, as specified in Schedule B to this Agreement.
- 1.4 If RESELLER has not signed a Letter Of Intent, Letter of Understanding, or a Product Supply Agreement with [*****] in the Territory to be a preferred or strategic supplier of video eyewear Products made by VUZIX or based on VUZIX Key Components within [*****] of the signing of the Agreement, VUZIX shall the right thereafter to change of all RESELLER’s rights under this Agreement to non-exclusive.

2. RESELLER’S OBLIGATIONS

- 2.1 RESELLER agrees to use commercially reasonable diligent, good faith efforts to promote the sale, distribution and promotion of the Products in the Territory. RESELLER shall actively and continuously develop, promote and maintain the distribution and support network for the Products within the Territory and shall engage in public relations and educational campaigns to inform the public of the Products within the Territory (including running pilot tests of the Products with potential customers), that RESELLER in its sole discretion considers necessary to create a demand therefore.

RESELLER agrees that it will not directly or indirectly, manufacture, market or distribute other products that are competitive with or substantially similar (either in function, form or features) to the Products covered under this Agreement, nor will it assist anyone else to do so.

- 2.2 RESELLER shall organize, train and maintain a competent force of sales persons who shall call on or contact customers in the Territory on a regular basis.

- 2.3 RESELLER shall set up and maintain a technical support centre for customers in the Territory that is adequate to provide support to its customers in a manner that is reasonably consistent with the practices provided by other companies within the Territory for similar types of consumer oriented products.
- 2.4 RESELLER may make full and effective use of promotional aids, selling aids, educational materials, advertising materials and related items as VUZIX may furnish to RESELLER. RESELLER, at its own cost, may develop and produce its own promotional materials which shall be in a manner that maintains the image of VUZIX and the Products and protects VUZIX' trademarks. RESELLER will use commercially reasonable efforts to provide VUZIX with copies of all such materials before they are released publicly. If VUZIX provides any written comments within ten days (10) after its receipt of such materials, RESELLER will work with VUZIX to implement or address those suggestions.
- 2.5 RESELLER shall cooperate with VUZIX marketing, sales management and field educational personnel in the promotion and selling of the Products.
- 2.6 RESELLER shall keep such amount of inventory of the Products as to be reasonably determined by RESELLER in view of the actual demand of the Products and Product manufacturing lead times.
- 2.7 RESELLER will maintain an adequate capital base and available credit lines to operate effectively with enough working capital to meet the demands of the customers within the Territory.
- 2.8 RESELLER will (i) conduct its business in a manner that reflects favorably at all times on the VUZIX Products and the good name, goodwill and reputation of VUZIX; (ii) avoid deceptive, misleading or unethical practices, that are or might be detrimental to VUZIX, the Products or the public; (iii) make no false or misleading representation with regard to VUZIX or the Products; (iv) not publish or employ or cooperate in the publication or employment of deceptive or misleading advertising material with regard to VUZIX or the Products; (v) make no representations, warranties or guarantees to customers or the trade with respect to the specifications, features or capabilities of the Products other than those included in the Products user documentation.
- 2.9 Both parties shall comply with all applicable international, national, provincial and state, regional, and local laws and regulations, including but not limited to export laws and regulations, in performing their duties hereunder and in any of their dealings with respect to the Products.
- 2.10 RESELLER shall only distribute, sell or resell the Products in the Territory under RESELLER's trade names or trade-marks or co-brand the Products with the VUZIX' trade names and trade-marks in accordance with the terms of this Agreement and with standards for the use of VUZIX's trademarks supplied by VUZIX.
- 2.11 RESELLER will distribute the Products with all packaging, warranties, disclaimers and license agreements intact as shipped from VUZIX, and will provide each of its customers with the terms of the License Agreement applicable to any VUZIX software included with the Products. Notwithstanding the above, if RESELLER has exercised its option to manufacture the Products under Section 5, RESELLER will be responsible for providing packaging, warranties and disclaimers for the Products manufactured in the Territory with the exception of all warranties and disclaimers applicable to Key Components (as defined herein), which warranties and disclaimers VUZIX will be responsible for. VUZIX will make no, and will have no responsibility for, warranties with respect to such products, other than with respect to Key Components. In the event the RESELLER has exercised its

option to manufacture the Products pursuant to Section 5 of this Agreement, RESELLER will ensure that all packaging, license terms, warranties, and disclaimers provide adequate protection for the intellectual property of VUZIX, which will have the right to approve such license terms, warranties and disclaimers as they relate to VUZIX intellectual property or the Key Components and will provide such approval within a reasonable time not to exceed thirty (30) days.

- 2.12 RESELLER will use commercially reasonable efforts to advise VUZIX promptly concerning any market information that comes to RESELLER's attention regarding the Products, VUZIX's market position or the continued competitiveness of the Products in the marketplace.

3. VUZIX'S OBLIGATIONS

- 3.1 VUZIX will, at the request of RESELLER, provide RESELLER with information and materials reasonably necessary for RESELLER's performance of marketing as contemplated hereby. VUZIX shall furnish to RESELLER, free of charge, such number of copies as required by RESELLER, within reason, of all available manuals in the English and Mandarin Language, and Product related sales and advertising material, Product manuals, and installation and operation manuals then in use by VUZIX (unless specifically prepared for another customer of VUZIX). For the avoidance of doubt, VUZIX shall have no obligation to create for or provide to RESELLER any materials other than its then-existing standard materials.
- 3.2 VUZIX will modify all packaging associated with the Products as reasonably requested by the RESELLER to reflect RESELLER's trade-marks and to meet special needs due to language differences and imposed packaging requirements in the Territory.
- 3.3 VUZIX shall make available to RESELLER in Beijing, at least twice per calendar year for periods of not more than 5 business days each or on a more frequent basis if required to support the launch of new Products or amended technology in existing Products, technically competent personnel to counsel RESELLER's engineers in a manner reasonably necessary to enable RESELLER's marketing of the Products as contemplated herein. RESELLER shall bear the reasonable expenses of having VUZIX personnel attend and instruct such courses in China, namely, the expenses of transportation, accommodation and meals.
- 3.4 VUZIX shall provide to RESELLER access to any reasonably necessary technical training courses that it develops, free of charge. RESELLER shall bear the reasonable expenses of having VUZIX personnel attend and instruct such courses in China, namely, the expenses of transportation, accommodation and meals. RESELLER shall have the right to have each such course presented in China once without charge other than for expenses, and each additional presentation of such course shall be paid for by RESELLER at VUZIX' standard per diem rate for the VUZIX personnel involved.
- 3.5 VUZIX in cooperation with the RESELLER shall prepare, obtain or transmit to RESELLER and all parties concerned, all export documents that are normally required to export the Products from the United States to RESELLER's designated shipment point in the Territory provided, however, that VUZIX shall not prepare, obtain or transport documents providing for the export of the Products in violation of applicable United States export regulations or where such export is prohibited or substantially restricted. VUZIX shall not be responsible for delivery delays caused by its inability to obtain export clearance so long as VUZIX reasonably attempts and continues to attempt to obtain such clearance.

- 3.6 VUZIX shall be responsible for all export costs into the Territory, however such costs will be included in its selling price to the RESELLER, and RESELLER shall be responsible for all import costs into the Territory, CIF Beijing.
- 3.7 VUZIX will not itself and will not authorize anyone else to directly or indirectly market, advertise, promote or sell products that are manufactured by VUZIX or its licensed third party partners or OEM's that are substantially similar with the Products in the Territory. VUZIX will promptly refer all inquiries regarding the Products received from within or about the Territory to RESELLER. VUZIX may market its brand within the Territory, subject to the prior consent of the RESELLER, with such consent not to be unreasonably withheld.
- 3.8 VUZIX will be responsible for and will use reasonable commercial efforts to protect and enforce VUZIX's intellectual property rights in and arising from the Products throughout the Territory, including the filing of applications and the maintenance of registrations for patent, copyright, trade-mark, industrial design and other applicable intellectual property rights throughout the Territory. If RESELLER becomes aware of any third party infringement or other misuse of such intellectual property rights, RESELLER will promptly inform VUZIX of such infringement and RESELLER will, at VUZIX's cost, provide such reasonable assistance to VUZIX as VUZIX requests for the purpose of enforcing its intellectual property rights against such infringement. If VUZIX elects not to take any action to prevent the infringement or other misuse of its intellectual property rights in the Territory within 60 days of being advised of an infringement (i) after having being advised by its legal counsel that such action is justified and has a reasonable likelihood of success, and (ii) where the expected damages recovery or damage mitigation would be greater than the costs of action or the costs of doing nothing, RESELLER may, at RESELLER's option, take such action at VUZIX's expense, in which case VUZIX will, at VUZIX's expense, provide reasonable cooperation in such action. VUZIX will promptly provide RESELLER with the basis of the determination as set out in (i) and (ii) in the previous sentence, and in the event RESELLER disagrees with the determination and the parties are not able to arrive at an agreed course of action within 10 days, either party may at its option refer the matter for arbitration as set out in this Agreement. In the event the RESELLER is unsuccessful in having arbitration agreeing such actions have reasonable merits to proceed, then it will be required to reimburse VUZIX for all its costs related to this matter, inclusive of all costs since the matter was originally raised by the RESELLER. In the event where RESELLER elects to proceed with an action that it solely undertakes at its own cost, and VUZIX has elected not to proceed in accordance with the terms of this Agreement after an arbitrators decision on the lack of positive merits of such an action, then VUZIX shall not be liable for any costs but will provide reasonable cooperation in such actions, at RESELLER's expense. Any money or proceeds recovered by way of damages, judgments, settlements or otherwise with respect to such action that are not measured by the royalties that would be payable to Vuzix for the use of such intellectual property, will be kept by the Party who bore the costs of such action or, in any case where the Parties have shared the costs, such money will be shared in proportion to the costs borne by each Party.
- 3.9 RESELLER will at all times be responsible for protecting and enforcing RESELLER's trade-mark rights in and relating to the Products throughout the Territory.
- 3.10 VUZIX reserves the right to protect and enforce such rights in the Territory if it so wishes and will prepare and submit or file all such rights on its own behalf only. RESELLER may use Vuzix' trademarks, trade names and trade dress only in such manner as Vuzix shall specify, inclusive of any local and special requirements to ensure the protection of the rights within the Territory.
- 3.11 VUZIX will use commercially reasonable efforts to advise RESELLER promptly concerning any market information that comes to VUZIX's attention regarding the

Products, the RESELLER's market position or the continued competitiveness of the Products.

4. TERMS OF SALE AND SHIPMENT

- 4.1 All sales to RESELLER shall be in accordance with the prices and volume discounts disclosed in Schedule C. At no time will the price and volume discounts set out in Schedule C be less advantageous to RESELLER than the best price for equivalent volumes offered by VUZIX to its best resellers for the same Product, subject to the pricing adjustments described in Schedule C. Payments shall be made in accordance with the terms set out in Schedule C.
- 4.2 Unless RESELLER has exercised its option to manufacture the Products under Section 5, if RESELLER does not meet the minimum business volumes ("MBV") set out in Schedule B within the times set forth in such Schedule, VUZIX may terminate this Agreement in accordance with Section 11.4. If RESELLER has exercised its option to manufacture the Products under Section 5, and if RESELLER does not meet the MBV set out in Schedule B for Key Components, VUZIX may terminate this Agreement in accordance with Section 11.4. The MBV set out in Schedule B may be amended from time to time by written agreement of the Parties.
- 4.3 VUZIX reserves the right, to change at anytime, and from time to time, its Products, packaging, labeling, and promotional material and manufacturing techniques, upon 90 days prior written notice to RESELLER. VUZIX however, will use commercially reasonable efforts to consult with the RESELLER in advance when such changes are intended.
- 4.4 All orders are subject to acceptance by VUZIX, which acceptance shall not be unreasonably withheld, conditioned or delayed. Delivery is subject to Product availability, VUZIX overall manufacturing capabilities and working capital position at the time RESELLER's order is received.
- 4.5 Subject to the conditions contained in Section 4.4, VUZIX will use commercially reasonable efforts to meet delivery dates accepted by it in each order. Orders accepted by VUZIX may not be canceled by RESELLER except on terms acceptable to VUZIX, unless VUZIX is unable to meet delivery dates previously agreed upon. Orders accepted by VUZIX may not be canceled by VUZIX unless RESELLER is on credit hold or in breach of this Agreement, except on terms acceptable to RESELLER.
- 4.6 VUZIX shall pack all Products it delivers in accordance with good commercial practices. Shipment of Products will be made on terms CIF Beijing. Title and risk of loss passes to RESELLER when the Products are delivered to RESELLER in Beijing. RESELLER is obligated to examine any shipment upon receipt and report any damage to or shortage of merchandise promptly to the carrier, its agents or insurance agents and to VUZIX within thirty (30) days of delivery. VUZIX is responsible for any losses or damage caused by the freight carrier during shipment that are reported within the thirty (30) days. Any RESELLER claim for other adjustments of an invoice is deemed to be waived if RESELLER fails to present such claim within thirty (30) days from the date of the invoice. .
- 4.7 Purchase orders and instructions between VUZIX and RESELLER shall be written and may be sent by facsimile machine (with delivery acknowledgment) , mail (acknowledged, return receipt requested), electronic mail (with delivery acknowledgement) and/or hand delivered and shall be effective as to a party when received by it, subject to the other provisions of this Agreement. VUZIX will provide RESELLER with confirmation of receipt of purchase orders and instructions within five (5) business days. While RESELLER may

employ its own form of purchase order, RESELLER agrees that the terms of this Agreement shall exclusively govern the sale of the Products and any terms or provisions of RESELLER's purchase orders or of VUZIX's invoices which are different from or in addition to the terms of this Agreement shall be null, void and of no force and effect.

- 4.8 If RESELLER fails to pay any sum that has not been disputed on a reasonable commercial basis when due, after the provision of ten (10) days written notice by VUZIX, VUZIX may discontinue performance under this and or any other Agreement between VUZIX and RESELLER and pursue such other remedies as may be available to it including, but not limited to, termination of this Agreement.
- 4.9 Net RESELLER Price in Schedule C is CIF Beijing, in U.S. Dollars, unless otherwise indicated on the quotation. VUZIX reserves the right to charge RESELLER for all routing, packing, handling, or additional insurance requested by RESELLER and agreed to by VUZIX. Orders shipped under special routing instructions must be separately agreed upon and may be subject to additional charges.
- 4.10 Prices are exclusive of, and the RESELLER will report and pay all, applicable sales, use, service, excise, import duties, value added or like taxes, unless RESELLER has provided VUZIX with an appropriate exemption certificate for delivery into the Territory. RESELLER is responsible for obtaining all necessary import approvals for the Product.
- 4.11 In the event a customer of RESELLER proposes to impose late delivery charges or other similar terms on RESELLER for a particular order or orders, RESELLER will advise VUZIX of such proposed terms and VUZIX and RESELLER will negotiate in good faith and acting reasonably, the imposition of the same terms on VUZIX (to the extent that late delivery is the result of any action or failure to act by Vuzix, other than as the result of a force majeure event) if VUZIX accepts such order.
- 4.12 RESELLER acknowledges that any commitment made by RESELLER to its customers with respect to price, quantities, delivery, specifications, warranties, modifications, interfacing capability or suitability (each a "Commitment"), which is more favorable to the customer than the standard terms generally made available by VUZIX to RESELLER or, in the case of warranties greater than the warranty terms set out in Section 8, will be RESELLER's sole responsibility, and RESELLER will indemnify VUZIX from liability for any such more favorable Commitment by RESELLER.

5. RIGHT TO MANUFACTURE

- 5.1 If RESELLER sells at least the number of units (the "Minimum for Manufacturing Amount") of the Products set out in Schedule B in the Territory during any twelve (12) consecutive month period, RESELLER will have the right, but not the obligation, to manufacture in the Territory RESELLER's full future requirement of the Products, as well as any additional Products required under Section 5.8. For these purposes, a sale shall mean that Products are ordered by RESELLER in accordance with normal lead times, payment and credit terms for such orders and shall include such Products that have been ordered but can not be delivered in the requested time frame by VUZIX.
- 5.2 If RESELLER elects to exercise its right to manufacture the Products, RESELLER will notify VUZIX in writing. In the event the RESELLER does not manufacture the Products itself, RESELLER will before it has contracted with any third party manufacturer, provide notice of its selection along with enough information (including the option for VUZIX to physically visit) for VUZIX to investigate and approve any such third party manufacturers before proceeding. RESELLER shall not retain or permit anyone to manufacture Products without the prior written consent of VUZIX and such consent will be provided in a reasonable time not to exceed 60 days, The written consent of VUZIX for RESELLER's

choice of third party manufacturers is not to be unreasonably withheld; provided, that VUZIX shall have the absolute right to approve any manufacturer who is, or is an Affiliate of, any person who manufactures or sells any products (or any component thereof) that compete with the Products. In the event that the RESELLER subsequently changes manufacturers, VUZIX must re-approve the selection.

5.3 RESELLER must use commercially reasonable diligent efforts to ensure that the Products, or any Products components, manufactured by RESELLER are not sold or otherwise distributed, exported, sold, leased or licensed outside of the Territory. Any failure of RESELLER to use commercially reasonable diligent efforts to ensure that such distribution, export, sale, lease or license does not occur outside of the Territory will be considered a material breach of this Agreement for all purposes, including the right of termination set forth in Section 11.6.

5.4 (a) Notwithstanding Section 5.2, RESELLER acknowledges that the key components of the Products, as described in Schedule D-I (the "Key Components") will not be disclosed to RESELLER and will not be manufactured by RESELLER. RESELLER will purchase the Key Components exclusively from VUZIX, as set out in Schedule D. VUZIX shall sell the Key Components to RESELLER at the same price it sells the same Key Components to other OEM customers purchasing the same unit volumes and on the same terms. The price paid by a customer for a Key Component will include all license fees or royalties paid with respect to the license, purchase, sale or use of the Key Components and VUZIX' or other parties' intellectual property included in the Key Component. If the price charged to another OEM customer is lower for purchases of the same Key Components in equivalent volumes and on the same terms, the difference in price paid by RESELLER to VUZIX, shall be adjusted retroactively to (i) the date on which such lower purchase price was charged to the OEM, if such lower price was first charged after sales have been made to RESELLER or (ii) the date on which sales were first made to RESELLER, if such lower a purchase price was in effect on that date. If VUZIX ceases to sell Key Components to such other OEM customer(s) at such lower prices, the purchase price to RESELLER shall be adjusted (upward or downward) as of the applicable date to new the price being paid by such OEM. Such an adjustment shall be made each time an adjustment is made in the purchase price being paid by an OEM, but it will only cover the period of such pricing for the duration the OEM is purchasing the Key Components.

(b) VUZIX will take all commercially reasonable steps to ensure that the Key Components incorporating VUZIX proprietary technology used in the manufacture of the Products are only available for purchase through VUZIX and that the manufacturers of such Key Components for VUZIX can not sell the Key Components to other third parties for use in substantially similar products.

(c) In the event there are no other third party customers other than the RESELLER that are purchasing the Key Components from VUZIX to establish a reasonable basis for competitive pricing, it is understood that the total dollar gross margin to be earned by VUZIX in selling the Key Components shall not exceed the total dollar gross margin that VUZIX otherwise earns by selling a finished product incorporating the same Key Components as a finished product to its third party customers, less an allowance for the typical gross margin that would be required for a third party manufacturer of like volumes of all the other raw components and labor costs that get combined and assembled with the Key Components into an equivalent finished product.

(d) If the RESELLER has exercised its option to manufacture the Products using Key Components as per Section 5.1, RESELLER may request, not more than twice annually for VUZIX to provide its costing of all the non-Key Components required to manufacture a specific video eyewear Product for informational purposes only. The RESELLER may request a "verification" of such costing information provided by VUZIX, subject to an audit

by an independent third party under an obligation of confidentiality. All costs of any verification audit will be the sole responsibility of the RESELLER and such audits are to take place at VUZIX main office in Rochester, New York.

- 5.5 VUZIX and RESELLER will use commercially reasonable efforts to cooperate to maximize their respective returns and have uninterrupted supply of Key Components sufficient to meet the manufacturing needs of both Parties.
- 5.6 If RESELLER notifies VUZIX of its intent to manufacture the Products in the Territory, VUZIX will within 90 days establish and maintain an escrow agreement (the "Escrow Agreement") for the documentation and any other collateral materials related to manufacture of the Key Components that VUZIX directly owns or controls, to the extent that VUZIX is legally entitled to place such materials in escrow or deliver them to a third party with a recognized and reputable third party escrow agent mutually agreed to by VUZIX and RESELLER (the "Escrow Agent"). VUZIX will, pursuant to the Escrow Agreement deposit the documentation, information and collateral materials necessary, useful and sufficient to enable someone skilled in the art to manufacture and produce the Key Components, (collectively, the "Escrowed Materials"). VUZIX will also deposit with the Escrow Agent all documentation, information and collateral materials in respect of all upgrades, improvements, enhancements and other modifications to the Key Components, within 30 days from the date that such upgrades, improvements and other modifications become commercially available, and such upgrades, improvements and other modifications shall form part of the Escrowed Materials. RESELLER will have the right to receive the Escrowed Materials from the Escrow Agent if VUZIX ceases, without just cause to provide RESELLER with the Key Components either directly or indirectly through a qualified successor or subcontractor pursuant to the terms of this Agreement. Upon any release of the Escrowed Materials to RESELLER pursuant to the Escrow Agreement, VUZIX hereby grants to RESELLER a non-exclusive right to use and modify the Escrowed Materials for the sole purpose of making, using and selling the Key Components for their inclusion in the finished Products within the Territory, without the right to disclose, sublicense, assign or otherwise transfer such right. All other terms of this Agreement shall remain in full force inclusive of the payment of royalties to Vuzix and Territorial limitations.
- 5.7 RESELLER will be responsible for all costs related to manufacturing and setting up manufacturing in the Territory, and for the maintenance of the Escrow Agreement. VUZIX will provide RESELLER with all required knowledge, information and specifications to enable RESELLER to manufacture the Products except for the Key Components.
- 5.8 If VUZIX wishes to use RESELLER as a manufacturer of Products outside the Territory, the Parties will use good faith efforts to negotiate a suitable arrangement.
- 5.9 RESELLER will consult with VUZIX throughout the manufacturing process in order to ensure that the Intellectual Property, as defined in Schedule D, is diligently protected, and that the character and quality of the Product manufactured by RESELLER are substantially similar to the character and quality of the Product manufactured by VUZIX, and based on appropriate industry standards. Samples of all RESELLER manufactured Product shall be provided to VUZIX at least quarterly, or at such more frequent intervals as VUZIX may request, so that VUZIX can insure their performance and quality before they are sold.
- 5.10 RESELLER will be responsible for all costs related to warranties for the Products it manufactures, with the exception of costs related to warranties for Key Components, which costs VUZIX will be responsible for.

5.11 VUZIX will provide technical assistance where reasonably necessary to assist RESELLER in the manufacturing of the Products in the Territory, on a cost recovery basis to VUZIX.

6. IMPROVEMENTS

6.1 RESELLER will have the right to modify the Products (if RESELLER is manufacturing the Product) or request VUZIX to modify the Products (if RESELLER is not manufacturing the Product) at RESELLER's expense as may be required or desired to improve the Products or to make the Products suitable for sale in the Territory where such modifications exceed UL, FCC, or CE cost equivalents. VUZIX will use commercially reasonable efforts (taking into account such factors as Vuzix' capacity for its other requirements and the general utility of such modifications) to comply with any such requests received from RESELLER. Such improvements to the Products made by RESELLER will, at VUZIX's option, be licensed back to VUZIX for its worldwide use, outside the Territory based on RESELLER's actual costs relating to the improvement prorated reasonably over the total number of units of Products anticipated to be produced by both RESELLER and VUZIX over a 24 month period. After the 24 month period, the license will be royalty free.

7. RIGHT TO VERIFY

7.1 VUZIX will have the right to verify the unit sales of Products, royalty amounts (if applicable under Section 5), and the protection of Intellectual Property, and RESELLER will promptly provide VUZIX with such accurate and complete information upon request: RESELLER shall provide VUZIX the right to periodically have an independent third party perform an audit, but not more than once annually, of the books and records of RESELLER to verify the accuracy and correctness of the royalty payments to VUZIX under a standard non-disclosure agreement. RESELLER agrees that it will provide reasonable access to its facilities and personnel for purposes of verifying compliance. In the event it is determined as a result of such audit that RESELLER has underpaid or under-reported royalty payments due to VUZIX by more than five percent (5%) in any period, RESELLER will be required to reimburse VUZIX immediately for the costs of the audit, all unpaid and overdue Royalty payments, plus pay accrued interest of 1.5% per month, and a fifty percent (50%) penalty on any such unpaid royalties. In the event royalty payments have been intentionally or negligently underpaid by 10% or more, RESELLER will be deemed to have made a material breach of this Agreement and Vuzix may in addition to other remedies recover the amounts together with a fifty percent (50%) penalty and interest at the rate of 1.5% per month and may terminate this Agreement pursuant to the provisions of Section 11.6.

7.2 RESELLER has the right to verify their actual purchase price of the Products that it purchases from VUZIX to ensure compliance with the best pricing for equivalent volumes under the provisions of Section 4.1 of this Agreement, and VUZIX will promptly provide RESELLER with such accurate and complete information (other than the names of its customers) upon request not more than twice annually. For the purposes of this clause, RESELLER shall not make any direct contact with other VUZIX customers. The "verification" shall be based upon material provided by Vuzix, subject to audit not more than once annually, by an independent third party under an obligation of confidentiality. In the event it is determined as a result of such review that VUZIX has over charged RESELLER more than five percent (5%) in any period, VUZIX will be required to reimburse RESELLER immediately for the costs of the review, all over charged amounts, plus pay accrued interest of 1.5% per month. In the event costs have been intentionally or negligently over charged by 10% or more, VUZIX will be deemed to have made a material breach of this Agreement and RESELLER may recover the amount of such

overpayment, together with interest at the rate of 1.5% per month, and may terminate this Agreement pursuant to the provisions of Section 11.6.

- 7.3 After the RESELLER has exercised its option to manufacture under Section 5 of this Agreement, RESELLER will have the right to verify that it is paying the correct purchase price of the Key Components that it purchases from VUZIX, and VUZIX will promptly provide RESELLER with such accurate and complete information (other than the names of its customers) upon request not more than twice annually. For the purposes of this clause, RESELLER shall not make any direct contact with other VUZIX customers or suppliers. The “verification” shall be based upon material provided by Vuzix, subject to audit not more than once annually by an independent third party under an obligation of confidentiality. In the event it is determined as a result of such review that VUZIX has over charged RESELLER more than five percent (5%) in any period, VUZIX will be required to reimburse RESELLER immediately for the costs of the review, all over charged amounts, plus pay accrued interest of 1.5% per month. In the event costs have been intentionally or negligently over charged by 10% or more, VUZIX will be deemed to have made a material breach of this Agreement and RESELLER may recover the amount of such overpayment, together with interest at the rate of 1.5% per month, and may terminate this Agreement pursuant to the provisions of Section 11.6.

8. LIMITED WARRANTY

- 8.1 VUZIX warrants that it shall ship to RESELLER only those Products which have passed the inspection standard established by VUZIX and that all the Products shipped hereunder shall conform to their specifications in all material respects and be free from defects in design, materials and workmanship, and will perform in accordance with their specifications in all material respects when used without modification and for their intended purposes for the period disclosed in the Product manual and warranty documentation attached as Schedule F. The Products will also comply with the quality control specifications and quality control rate set out in Schedule E.

- 8.2 VUZIX will provide warranty service for all Products, unless RESELLER has exercised its option to manufacture the Products in the Territory under Section 5. For all Products manufactured outside of the Territory, for a period of one year after delivery to RESELLER, VUZIX will promptly repair or replace any Products that do not meet the warranty set out in Section 8.1. RESELLER will be the contact for all warranty claims by customers within the Territory, and will maintain adequate inventory of Products in order to ensure that customers within the Territory have prompt access to replacement Products. If RESELLER has exercised its option to manufacture the Products in the Territory under Section 5, RESELLER will be responsible for all Product warranties in the Territory, with the exception of warranties for Key Components, which VUZIX will be responsible for. In the event VUZIX determines to pay RESELLER to provide warranty service for Products in the Territory, VUZIX and RESELLER will in good faith negotiate such an arrangement.
- 8.3 No warranties set forth therein shall be applied and VUZIX shall be free from any liability if the Products are used under condition beyond the scope set forth in the Product manuals. Product warranties do not cover cosmetic damage or damage due to acts of God, accident, misuse, abuse, negligence, or unauthorized modification of or to any part of the Product, or use of the Products with any other device or equipment other than as specified in the specification for that Product. All Product warranties do not cover damage due to improper operation or maintenance, connection to improper voltage supply, or attempted repair by anyone other than VUZIX or a VUZIX' authorized service facility.
- 8.4 REPAIR OR REPLACEMENT AS PROVIDED UNDER THE PRODUCT WARRANTY IS THE EXCLUSIVE REMEDY OF THE CONSUMER. VUZIX SHALL NOT BE LIABLE FOR ANY INCIDENTAL OR CONSEQUENTIAL DAMAGES FOR BREACH OF ANY EXPRESS OR IMPLIED WARRANTY EXCEPT TO THE EXTENT AN EXCLUSION OF SUCH LIABILITY IS PROHIBITED BY APPLICABLE LAW. VUZIX SHALL NOT BE LIABLE FOR ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. ANY WARRANTY ON THE PRODUCTS IS LIMITED IN DURATION TO THE DURATION OF THE SPECIFIC PRODUCT WARRANTY, AS SET OUT IN SCHEDULE F.
- 8.5 RESELLER shall include the foregoing disclaimer (Section 8.4) with all Product sold by it.

9. INDEMNIFICATION; DISCLAIMER OF WARRANTIES; LIMITED LIABILITY

- 9.1 Subject to the limitations set forth in this Agreement, VUZIX agrees to defend or settle, at VUZIX's cost, any claim against RESELLER (including, for the purposes of this section only, RESELLER's end-user customer, or third parties to whom RESELLER is authorized by VUZIX to resell or sublicense) and VUZIX will indemnify and hold RESELLER harmless for any loss, damage or liability (including reasonable attorney's fees and costs of litigation) relating to all third party product liability claims or allegations, all enforceable claims by any third party resulting directly from VUZIX's acts, omissions or representations, and all claims or allegations that the Products or Key Components, delivered under this Agreement infringe a third party patent, utility model, industrial design, copyright, trade secret, mask work, integrated topography or trade-mark in the Territory or country where Products or Key Components are used, sold, or receive support, provided RESELLER (1) promptly notifies VUZIX in writing of any such claim; (2) cooperates fully with VUZIX at VUZIX's expense, in, and grants VUZIX sole control of the defense or settlement; and (3) sells said Products or Key Components in material compliance with this Agreement.

- 9.2 If such a claim appears likely, VUZIX may modify the Products or the Key Components, as applicable, so that they are no longer infringing or unsafe, procure any necessary license, or replace them. If VUZIX determines that none of these alternatives is reasonably available, VUZIX will refund RESELLER's purchase price upon return of the Products or the Key Components, as applicable, if within one (1) year of Delivery.
- 9.3 Notwithstanding the prior Section 9.1 and 9.2, VUZIX has no obligation for any claim of infringement arising from: (1) VUZIX' compliance with RESELLER's designs, specifications or instructions; (2) unauthorized Product modification by RESELLER or a third party; (3) Product use prohibited by specifications or related application notes set out in Schedule F; (4) or use of the Product with products not supplied or authorized by VUZIX.
- 9.4 Subject to the limitations set forth in this Agreement, RESELLER agrees to indemnify VUZIX (including reasonable attorney's fees and costs of litigation) against and hold VUZIX harmless from any and all enforceable claims by any third party resulting directly from RESELLER's acts, omissions or representations, other than those acts, omissions or representations permitted under this Agreement, regardless of the form of action. Provided that such indemnity is conditional upon VUZIX promptly notifying RESELLER in writing of any such claim, VUZIX cooperating fully with RESELLER in and granting to RESELLER sole control of the defense or settlement of such claim and VUZIX complying fully with the terms of any such settlement. NOTWITHSTANDING THE ABOVE, UNDER NO CIRCUMSTANCES SHALL RESELLER BE LIABLE TO VUZIX FOR ANY SPECIAL, INDIRECT, INCIDENTAL, CONSEQUENTIAL OR EXEMPLARY DAMAGES WHATSOEVER, INCLUDING BUT NOT LIMITED TO LOST PROFITS, BUSINESS INTERRUPTION, LOSS OF BUSINESS INFORMATION OR ANY OTHER PECUNIARY LOSS ARISING OUT OF THIS AGREEMENT OR ANY ACTS, OMISSIONS OR REPRESENTATIONS OF RESELLER, EVEN IF RESELLER HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.
- 9.5 The terms in this Section and the end user warranty attached as schedules to this Agreement, state VUZIX' entire liability to RESELLER and its customers for claims of intellectual property infringement. Such warranty, including all of the disclaimers and limitations contained therein, shall be included with all Product sold by RESELLER to its customers.
- 9.6 VUZIX MAKES NO WARRANTIES OR REPRESENTATIONS AS TO PERFORMANCE OF VUZIX'S PRODUCTS OR AS TO SERVICE TO RESELLER TO ANY OTHER PERSON, EXCEPT AS SET FORTH IN VUZIX'S LIMITED WARRANTY CONTAINED HEREIN AND THE END USER WARRANTY AS CONTAINED IN THE ATTACHED SCHEDULES TO THIS AGREEMENT AND WITH THE PRODUCTS. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW AND EXCEPT AS PROVIDED IN THIS AGREEMENT, ALL VUZIX PRODUCTS ARE DELIVERED "AS IS" AND WITHOUT EXPRESS OR IMPLIED WARRANTY OF ANY KIND BY EITHER VUZIX OR ANYONE ELSE WHO HAS BEEN INVOLVED IN THE CREATION, PRODUCTION OR DELIVERY OF SUCH PRODUCTS, INCLUDING BUT NOT LIMITED TO ANY IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, AND THE PROVISION OF OR FAILURE TO PROVIDE SUPPORT SERVICES. VUZIX DOES NOT PROMISE THAT THE VUZIX PRODUCTS WILL BE ERROR-FREE OR WILL OPERATE WITHOUT INTERRUPTION.
- 9.7 UNDER NO CIRCUMSTANCES SHALL VUZIX OR ITS SUPPLIERS BE LIABLE TO RESELLER, END-USER CUSTOMERS OR ANY THIRD PARTIES ON ACCOUNT OF ANY CLAIM (WHETHER BASED UPON PRINCIPLES OF CONTRACT, WARRANTY, NEGLIGENCE OR OTHER TORT, BREACH OF ANY STATUTORY DUTY, PRINCIPLES OF INDEMNITY, THE FAILURE OF ANY LIMITED REMEDY TO ACHIEVE

ITS ESSENTIAL PURPOSE, OR OTHERWISE) FOR ANY SPECIAL, INDIRECT, INCIDENTAL, CONSEQUENTIAL OR EXEMPLARY DAMAGES WHATSOEVER, INCLUDING BUT NOT LIMITED TO LOST PROFITS, BUSINESS INTERRUPTION, LOSS OF BUSINESS INFORMATION, ANY OTHER PECUNIARY LOSS OR FOR ANY DAMAGES OR SUMS PAID BY RESELLER TO THIRD PARTIES, ARISING OUT OF THE USE OF OR INABILITY TO USE THE PRODUCTS OR THE PROVISION OF OR FAILURE TO PROVIDE SUPPORT SERVICES, EVEN IF VUZIX HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

9.8 VUZIX' MAXIMUM LIABILITY UNDER THIS LIMITED WARRANTY IS EXPRESSLY LIMITED TO THE AMOUNTS PAID BY RESELLER UNDER THIS AGREEMENT. IN THE EVENT OF END-USER CUSTOMERS OR ANY THIRD PARTIES, VUZIX' MAXIMUM LIABILITY UNDER THIS LIMITED WARRANTY IS EXPRESSLY LIMITED TO THE AMOUNTS THEY ORIGINALLY PAID FOR THE PRODUCT OR THE COST OF REPAIR OR REPLACEMENT OF ANY HARDWARE COMPONENTS THAT MALFUNCTION IN CONDITIONS OF NORMAL USE DURING THE APPLICABLE WARRANTY PERIOD

9.9 The foregoing paragraph (Section 9.7) shall be included with all Products sold by RESELLER to its customers.

10. RESELLER'S STATUS AND MISCELLANEOUS RESPONSIBILITIES

10.1 RESELLER is an independent contractor, not an employee of VUZIX. This Agreement does not create an employer-employee, a franchisor-franchisee or a principal-agent relationship between VUZIX and RESELLER. RESELLER is not authorized, nor will it represent that it has, any power, right or authority to enter into agreements for or on behalf of VUZIX, to create any obligation due or owed VUZIX, to accept service of process on VUZIX or to bind VUZIX in any manner.

10.2 VUZIX grants RESELLER an exclusive, royalty-free license to display one or more designated VUZIX trade-marks, logo types, trade names and insignia ("VUZIX Marks") in the Territory solely to promote, distribute and sell the Products, and to otherwise meet RESELLER's obligations under this Agreement. Any display of VUZIX Marks must be in good taste, in a manner that preserves their value as VUZIX Marks, and in accordance with written standards provided by VUZIX for their display and use. RESELLER will not use any name or symbol in a way, which may imply that RESELLER is an agency or branch of VUZIX. RESELLER will discontinue any such use of a name or mark as requested by VUZIX promptly upon notice. RESELLER will use commercially reasonable efforts to provide VUZIX with copies of any materials using the VUZIX Marks in advance of any public use. RESELLER will comply with any VUZIX suggestions it receives back in writing. Any rights or purported rights in any VUZIX Marks acquired through RESELLER's use belong solely to VUZIX, and any goodwill in the VUZIX Marks will accrue to VUZIX. Upon termination of this Agreement, RESELLER promptly discontinue any use of the VUZIX Marks and promptly remove the VUZIX Marks from all invoices, displays, telephone directories, trade literature and all other advertising medium. Failure to discontinue the use of VUZIX Marks as required hereunder shall constitute trademark infringement. VUZIX Marks may be used only on or in connection with the sale and marketing of the Products in the Territory.

10.3 RESELLER grants VUZIX the non-exclusive, royalty free right to display RESELLER's name or trademarks, service marks and logos ("RESELLER Marks") in advertising and promotional material solely for directing prospective purchasers of Products to RESELLER's selling locations. Any display of the RESELLER Marks must be in good taste, in a manner that preserves their value as RESELLER Marks, and in accordance with standards provided by RESELLER for their display. Any rights or purported rights in any RESELLER Marks acquired by VUZIX through this Agreement belong solely to

RESELLER, and any goodwill in the RESELLER Marks will accrue to the RESELLER. Upon termination of this Agreement, VUZIX agrees to use commercially reasonable efforts to promptly discontinue any use of the RESELLER Marks and promptly remove the RESELLER Marks from all invoices, displays, telephone directories, trade literature and all other advertising medium. Failure to discontinue the use of the RESELLER Marks as required shall constitute trademark infringement.

- 10.4 Each Party acknowledges that all manufacturing specifications and data, all Escrowed Materials, financial information, sales and marketing information, distribution agreements and their terms, repair, replacement and maintenance information and data related to the Products or this Agreement which are obtained by one Party (the "Recipient") from or about the other (the "Discloser") is commercially valuable confidential information (the "Confidential Information") of the Discloser. Each Party shall use the Confidential Information of the Discloser solely in connection with the distribution or manufacturing of the Products and the furtherance of this Agreement and shall not use or disclose the Confidential Information for any other purpose.
- 10.5 In the event that Confidential Information is exchanged, each Party will protect the Confidential Information of the other in the same manner in which it protects its own like proprietary, confidential, and trade secret information and will use it only for purposes of this Agreement. Information shall be considered Confidential Information if the Discloser furnishes such information in writing and marks such information as "Confidential" or if such information is provided orally, such information shall be considered Confidential Information if (a) the Discloser summarizes the content of oral disclosures which are proprietary or confidential within thirty (30) days of its communication, and (b) such information was identified as confidential or proprietary when orally disclosed. All such Confidential Information will remain confidential for the term of this Agreement plus five (5) years.
- 10.6 Notwithstanding sections 10.5 and 10.6, there is no obligation upon a Recipient with respect to Confidential Information which (a) was demonstrably in the Recipient's possession before the disclosure without restriction on its use or disclosure; (b) is or becomes a matter of public knowledge through no fault of the Recipient; (c) is rightfully received by the Recipient from a third party without a duty of confidentiality to the Discloser; (d) is disclosed by the Discloser to a third party without a duty of confidentiality on the third party; (e) is demonstrably independently developed by the Recipient without the use of any other Confidential Information; (f) is disclosed under (and only to the extent required by) operation of law; or (g) is disclosed by the Recipient with the Discloser's prior written approval.

11. TERM AND TERMINATION

- 11.1 This Agreement will have a term of five (5) years from the Effective Date and will renew automatically, subject to 11.3, on the fifth anniversary of the Effective Date for a further five (5) year period, unless RESELLER is then in breach of this Agreement.
- 11.2 RESELLER may terminate this Agreement at any time by giving VUZIX six (6) months prior written notice.

- 11.3 The "Minimum Business Volume" MBV requirements for the Territory for each measurement period along with bench marks for such minimums where they have not yet been finalized, are listed in Schedule B of this Agreement. New MBV requirements must be negotiated in good faith and in accordance with the bench marks set out in Schedule B for the automatic renewal in Section 11.1 to take place. This Agreement may be terminated by VUZIX if RESELLER fails to meet the sales volume goals established by VUZIX and RESELLER for any period, as specified in Schedule B to this Agreement.
- 11.4 The RESELLER's Initial Funding Target, Initial Funding and Operational Date, Date of Determination for Minimum Cumulative Sales and Minimum Cumulative Sales Requirements, and Minimum Business Volumes requirements are listed in Schedule B of this Agreement. VUZIX shall have the right to terminate this Agreement under Section 11.6 if the RESELLER does not meet such requirements. Such termination shall be effective upon the giving of notice by VUZIX.
- 11.5 If either Party becomes insolvent, is unable to pay its debt when due, files for bankruptcy, is the subject of involuntary bankruptcy, has a receiver appointed, or has its assets assigned, the other Party may terminate this Agreement on thirty (30) days written notice and may cancel any unfulfilled obligations.
- 11.6 Either Party may terminate this Agreement because of a material breach by the other Party of this Agreement unless such other Party cures the breach within thirty (30) days after having been advised in writing of such breach by the non-breaching Party.
- 11.7 Upon termination or expiration of this Agreement in accordance with the terms of this Agreement, all amounts owed from either Party to the other Party shall immediately become due, and RESELLER shall not thereafter represent or hold itself out as an authorized VUZIX reseller or engage in any practices that might make it appear that RESELLER is still an authorized VUZIX reseller. Upon termination or expiration, RESELLER will immediately cease to be an authorized VUZIX reseller and will among other things, not use any VUZIX Marks and will cause all of its authorized sub-resellers to cease using any VUZIX Marks. Authorization of VUZIX to use any of RESELLER's trade-marks will automatically cease upon such termination or expiration.
- 11.8 Upon termination or expiration of this Agreement, VUZIX reserves the right (without any obligation to do so) to repurchase from RESELLER, any or all Products then in the possession or under the control of RESELLER that are still unopened, in new merchantable condition and in their original packaging. Such repurchase shall be made at the actual price paid for such Products by RESELLER, FOB RESELLER's principal place of business, less any and all amounts then owing, for whatever reasons, from RESELLER to VUZIX. Such right must be exercised by giving written notice thereof within Sixty (60) days from the date of expiration or from the date notice of termination was given, as the case may be.
- 11.9 Acceptance of orders by VUZIX after notice of termination has been given shall be construed as separate transactions and shall not operate as a renewal or revival of this Agreement or as a waiver of such termination. VUZIX reserves the right for any reason and in its sole discretion to accept or reject, in whole or in part, any such orders and apply any new terms of sale. If no new terms of sale are agreed to by the parties but the order is nevertheless accepted by VUZIX, then the applicable terms of this Agreement shall apply to such order.
- 11.10 All obligations concerning outstanding transactions, warranties, support, Products, intellectual property protection, limitations of liability and remedies, confidentiality, and the general terms and conditions will survive termination or expiration of this Agreement,

except that the provisions for confidentiality will survive only through the periods set forth in this Agreement.

- 11.11 The Party terminating this Agreement pursuant to the express provisions hereof shall not incur any liability to the other Party by reason of termination of this Agreement either for compensation or damages on account of the loss of present or prospective profits or expenditures or investments or for any reason.
- 11.12 The term "Force Majeure" as employed in this Section means and includes the causes beyond the reasonable control of the Party so affected, including, but not limited to, war (declared or undeclared), hostility, riot, revolution, embargo, fire, earthquake, flood, or other acts of God. The Party so affected shall use its best efforts to provide the other Party with a prompt written notice within fourteen (14) days after occurrence thereof.
- 11.13 If the performance of this Agreement or any obligation hereunder is prevented, delayed, restricted or intervened with by reason of the Force Majeure, the Party so affected shall be excused from such performance to the extent of such prevention, delay, restriction or interference and such shall not constitute a breach of this agreement, provided, however, that the Party so affected shall use its best efforts to avoid or remove such causes of non-performance and whenever those are removed, it shall commence and/or continue performance promptly. Notwithstanding the foregoing, nothing shall relieve the RESELLER from any payment obligations under this Agreement.
- 11.14 Notwithstanding the foregoing, in the event that the Force Majeure remains uncured for a period of Two (2) months, the Party not so affected may, at no charge and without any liability to the Party so affected (other than the obligation to pay amounts due or to become due and the obligation to continue to be bound by the terms of this Agreement that expressly or by their nature survive termination), cancel all orders and terminate this Agreement on prior written notice to the Party so affected.

12. ASSIGNMENTS AND OPTIONS TO BUY

- 12.1 This Agreement and the rights of RESELLER hereunder may not be assigned or otherwise transferred by RESELLER without the prior written consent of VUZIX, which shall not be unreasonably withheld or delayed; provided that it shall not be unreasonable for VUZIX to withhold its consent to such an assignment or transfer for any negative tax or corporate structure reasons or if the proposed assignment or transfer is to be made to a supplier of parts or components to VUZIX, to a party that performs manufacturing services of the Products or Key Components for or on behalf of VUZIX, to a Competitor of VUZIX or to an Affiliate (as both defined in Section 12.2) of any of such persons.
- 12.2 If RESELLER receives a bona fide offer (an "Offer") from a third party that is a Competitor of VUZIX (as hereinafter defined) (the "Offeror") to purchase an Interest (as hereinafter defined) in RESELLER, VUZIX shall have a right of first refusal to purchase such Interest, on the same terms and conditions as those proposed by the Offeror. If RESELLER receives and wishes to accept an Offer, it shall send a written notice (the "Notice of Offer") to VUZIX, which shall set forth the identity of the Offeror, the Interest proposed to be sold, the sale price, the manner of payment thereof, and all other terms and conditions of the Offer. VUZIX shall then have the right, to be exercised by notice in writing given to RESELLER within 30 days of the receipt of the Notice of Offer, to acquire such Interest, on the same terms and conditions as are contained in the Notice of Offer. During the 30 day period following the Notice of Offer, VUZIX shall have the right to conduct such due diligence with respect to RESELLER and the Interest as it may reasonably require, and RESELLER shall cooperate in such due diligence review in all such respects as VUZIX may reasonably require. If (and provided that it has received the right to conduct such due review) VUZIX does not exercise its right of first refusal within 30 days of the Notice of Offer, then RESELLER may sell the Interest to such third party on the same (but not

on any other) terms as contained in the Notice of Offer. If it does not consummate such sale within such period, its right to sell to the third party free of VUZIX's right of first refusal shall expire.
For purposes of this Section 12.2,

"Interest" means an equity interest, or a right to acquire or that is convertible into an equity interest, as a result of the ownership of which a person or entity has or has the right to acquire the ability to (a) control the business or operations of RESELLER or (b) own more than 50% of the equity interests in or assets of RESELLER,

"Competitor" shall mean a party that, at the time of the Offer, (a) is selling products similar to the Products or (b) that has publicly stated its intention to sell such products or (c) has as its primary business the manufacture and resale or OEM of audio, video, computer, video game, or entertainment hardware products to the consumer electronics sector, or any Affiliate of such a person. Competitor does not include any entity whose primary business is being a wireless cell phone operator or carrier; a financial institution; video game online operator or manufacturer (software publisher); or a content provider.

"Affiliate" means any person or entity that controls, is controlled by or is under common control with another person or entity.

- 12.3 (a) If at any time after the expiry of the initial 5 years terms of this Agreement VUZIX or its shareholders shall enter into negotiations with a third party, or receive a proposal from a third party, regarding (i) the sale or transfer of substantially all of the equity interests of VUZIX, whether by purchase, merger or otherwise, (ii) the sale or transfer of substantially all of the assets of VUZIX, whether by purchase, merger or otherwise or (iii) the sale or transfer of those assets of VUZIX that are used in the production, distribution and sale of the Products, whether by purchase, merger or otherwise (together, a "Sale Transaction"), then VUZIX shall give RESELLER notice of the proposed Sale Transaction (the "Sale Transaction Notice"), and RESELLER shall treat all information regarding such discussions or proposals (including the fact thereof) as Confidential Information in accordance with Article 10 of this Agreement.
- (b) In the event of a Sale Transaction, VUZIX shall have an option to convert RESELLER's right to distribute Products in the Territory to a nonexclusive right (that is subject in all other respects to the identical terms and conditions contained in this Agreement). Such option shall be exercised, if at all, in the Sale Transaction Notice, but shall not be effective unless the Sale Transaction is completed in accordance with its terms. The amount to be paid by VUZIX for such conversion, as the case may be, shall be the Fair Value of the rights converted, as determined in accordance with Section 12.3 (c) herein.
- (c) For purposes of this Section 12.3, the Fair Value shall be the difference as of thirty (30) days prior to closing date of the Sale Transaction between RESELLER's exclusive and RESELLER's nonexclusive right to resell the Products and shall be determined by the average valuations of two appraisers who are experienced in valuing business for purposes of sale, one of which shall be selected by each of the parties; provided, however, that if the appraisals differ by more than 10% of the higher appraisal, the two appraisers shall select a third appraiser who is similarly qualified, and (x) if the third appraiser's appraisal is between the first two, the Fair Value shall be as determined by the average of the first two and (y) if the third appraisal is either higher or lower than both of the first two appraisals, then the third appraisal shall be used as Fair Value. All fees and other costs related this Section 12.3, including all appraisal fees incurred by the parties pursuant to Section 12.3(c) herein, will be paid by VUZIX. The Fair Value will be determined by the appraisers taking into account, among other things considered

relevant, the amount of time remaining in the then current renewal term of this Agreement.

(d) VUZIX may, at its option, pay the Fair Value amount determined pursuant to Section 12.3(c) in cash or in shares of its Common Stock, based upon the valuation of such shares on the closing date of the Sale Transaction. The Fair Value amount determined pursuant to Section 12.3 (c) will be paid upon completion of the Sale Transaction, or such other time as expressly agreed by RESELLER.

(e) If the Sale Transaction involves the receipt by VUZIX's shareholder of the securities of another entity, VUZIX will use commercially reasonable efforts to have any such securities received by RESELLER or its shareholders treated in the same manner, and subject to the same rights and restrictions as are applicable to the securities received by VUZIX's shareholders in such Sale Transaction, provided that RESELLER and its shareholders satisfy such obligations in connection with such securities as are applicable to other shareholders of VUZIX.

(f) Other than as expressly set out under Section 12.3(b), all other rights and obligations of the parties under this Agreement will continue unaffected by the application of Section 12.3(b)

(g). This Section 12.3 will not affect or limit the right of VUZIX to (i) acquire the RESELLER or any of its securities on the open market or through a tender offer if the RESELLER is a public company; or (ii) negotiating to buy the RESELLER outright; (iii) or negotiating to buy-out this Agreement or any of the RESELLER's right hereunder.

12.4 a) If VUZIX is involved in a Sale Transaction that closes with a third party within the first 5 year term of this Agreement, then at any time after the expiry of the initial 5 year term of this Agreement, then the other party to the Sale Transaction shall have an option exercisable notice to RESELLER 3 months in advance to convert RESELLER's right to distribute Products to a nonexclusive right (that is subject in all other respects to the identical terms and conditions contained in this Agreement), subject to such party's or VUZIX's payment ("Compensation") to the RESELLER of the difference as of the date of the notice of the exercise of such option between the value of RESELLER's exclusive and the value of RESELLER's nonexclusive right to resell the Products in the Territory for the remainder of the renewal term of this Agreement. The amount of such values and the difference between them shall be determined in accordance with Section 12.4 (b) herein.

(b) For purposes of this Section 12.4, the Compensation shall be determined by the average valuations of the difference between such exclusive and nonexclusive rights as determined by two appraisers who are experienced in valuing business for purposes of sale, one of which shall be selected by each of the parties; provided, however, that if the appraisals differ by more than 10% of the higher appraisal, the two appraisers shall select a third appraiser who is similarly qualified, and (x) if the third appraiser's appraisal is between the first two, the Compensation shall be as determined by the average of the first two and (y) if the third appraisal is either higher or lower than both of the first two appraisals, then the third appraisal's valuation shall be used as the Compensation. All fees and other costs related this Section 12.4, including all appraisal fees incurred by the parties pursuant to Section 12.4(b) herein, will be paid by such other party to the Sale Transaction or VUZIX, as the case may be. The form and settlement of the Compensation will be negotiated by the parties, acting reasonably, at that time. If the parties are unable to agree on the form and settlement of the Compensation, other than in the form of cash, within thirty (30) days after the determination of the Compensation amount determined by the appraisers, then the option granted to the new owner (the

other party to the Sale Transaction) will expire and the exclusive right granted to RESELLER herein will not be converted into a nonexclusive right. The Compensation will be determined by the appraisers taking into account, among other things considered relevant, the amount of time remaining in the then current renewal term of this Agreement, namely the entire 5 year renewal term.

(c) Other than as expressly set out under Section 12.4 (a), all other rights and obligations of the parties under this Agreement will continue unaffected by the application of Section 12.3(b)

- 12.5 RESELLER agrees to offer VUZIX the option to purchase up to \$[*****] of any financing that it undertakes in its efforts to achieve its Initial Funding Targets (as defined in Schedule B) by December 31, 2009. The VUZIX investment option would be on the same terms and conditions as all the RESELLER's other investors and adequate time is to be given to VUZIX to evaluate this investment.

13. CHOICE OF LAW AND CORRECTIVE CHANGES

- 13.1 This Agreement shall be governed by and construed in accordance with the laws of the State of New York, USA without regard to its conflict or choice of law provisions.
- 13.2 The parties agree to make any required reasonable changes within 60 days from the signing of this Agreement, to make the main terms of this Agreement enforceable in the Territory and with no negative tax or other consequences to VUZIX and to ensure that this Agreement does not have any unintended consequences to either party.
- 13.3 Both parties acknowledge that they have obtained their own legal representation in the negotiation of this Agreement. In the construction of any terms in this Agreement, no term shall be construed against any Party on the basis of that Party having drafted that language.

14. ARBITRATION

- 14.1 RESELLER and VUZIX agree to first enter into negotiations to resolve any controversy, claim or dispute ("Dispute") arising under or relating to this Agreement. The Parties agree to negotiate in good faith to reach a mutually agreeable resolution of such Dispute within a reasonable period of time. If the Parties are unable to resolve any Dispute within 30 days, or such other period agreed to in writing by the Parties, the Dispute will be referred to and finally resolved by binding and final arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. A total of three (3) arbitrators shall be appointed in accordance with the then prevailing rules. If initiated by VUZIX, the arbitration shall take place in Vancouver, British Columbia. If initiated by RESELLER the arbitration shall take place in the County of Monroe, New York, USA. The arbitrator(s) shall be bound to, follow the provisions of this Agreement in resolving the dispute, and may not award punitive damages. The decision of the arbitrator(s) shall be final and may be entered or enforced in any court of competent jurisdiction.

15. WAIVER

15.1 In the event that either VUZIX or RESELLER waives any right under any provision of this Agreement, such waiver by either Party shall not constitute a waiver with regard to any other rights set forth in this Agreement or a waiver of the provision in the future.

16. VALIDITY OF AGREEMENT

16.1 VUZIX and RESELLER agree that if any portion of this Agreement is found to be invalid such portion may be severed from the Agreement, such a finding does not serve to invalidate any other provision of this Agreement, nor does such a finding serve to invalidate this Agreement as a whole, unless such finding causes this Agreement to fail of its essential purpose.

17. GENERAL

17.1 All notices that are required under this Agreement will be in writing and will be considered given as of twenty-four (24) hours after sending by electronic means, facsimile transmission, overnight courier, or hand delivery, or as of four (4) days of certified mailing and appropriately addressed to the locations noted at the beginning of this Agreement, or elsewhere as directed by each Party, provided that each such form of delivery shall be confirmed by appropriate receipt of delivery.

17.2 This Agreement constitutes the entire understanding between VUZIX and RESELLER, and supersedes any previous communications, representations or agreements between the Parties, whether oral or written, regarding transactions hereunder. No modification of this Agreement will be binding on either Party unless made in writing and signed by both Parties.

17.3 Parties hereto agree that neither will refer to this Agreement or to the presence thereof in any advertising material or otherwise, or disclose the terms or conditions of this Agreement to a third party without prior written consent of the other Party, such consent not to be unreasonably withheld, conditioned or delayed.

17.4 Time is of the essence in this Agreement.

18. SIGNATURE

- 18.1 Each Party warrants that the person signing is its duly authorized representative, that they have read and understood this Agreement, that the Party enters into this Agreement freely to advance its economic interests and that signature binds the Party to the obligations imposed upon it by this Agreement.
- 18.2 This Agreement may be executed in counterparts, each of which, when so executed, will be deemed to be an original copy hereof, and all such counterparts together will constitute one single agreement. Either Party may deliver a counterpart signature page by electronic transmission.

VUZIX CORPORATION

YUVIEW HOLDINGS LTD.

/s/ Paul J. Travers
Signature

/s/ Steve Batabue
Signature

Paul J. Travers
Print Name & Title

Steve Batabue
Print Name & Title

August 27, 2009
Date Signed

August 27, 2009
Date Signed

SCHEDULE A

TERRITORY

RESELLER's exclusive Territory is Mainland China, Hong Kong, Macau, and Taiwan

SCHEDULE B

PRODUCTS and MINIMUM BUSINESS VOLUMES

In this Agreement "Products" means all present and future consumer video eyewear products produced and/or sold by VUZIX or its licensed third party partners or OEMs, including any video eyewear products incorporating Key Components and all improvements and accessories, and any other consumer near eye display products produced by VUZIX in the present and future. A Unit means a single Product.

Minimum Business Volume ("MBV") Requirements:

- MBV refers to the minimum unit sales of Products by RESELLER or RESELLER purchases of complete sets of Key Components incorporated into Products in the Vendor manufacturing stage of this Agreement.
- The initial or first Date of Determination shall be the later of 18 months after November 30, 2009. The Minimum Cumulative sales or MBV for this first Date of Determination is [*****] Units. Product compliance testing per Chinese CCC rules ("CCC") will commence with either the Wrap 310 or Wrap 920 Product from VUZIX, as chosen by RESELLER. RESELLER is responsible for all costs of obtaining certifications and compliance with any regulatory CCC rules required for the import, sale or manufacturing of all Products in the Territory. VUZIX and RESELLER will cooperate fully with each other in the getting Territory regulatory approvals and VUZIX will use its best commercial efforts and at its own cost to make any necessary modifications to its standard Products to comply with any such regulations or certifications. To the extent that VUZIX is required to make hardware changes to the Products and if their time to implement those changes totals more than 2 weeks for further compliance testing with CCC, then the 18 month period's first Date of Determination will be extended by the amount of time required for such changes (i.e. a 5 week Product change would mean the 18 month period gets extended out by 5 weeks).
- VUZIX and RESELLER will negotiate in good faith at least 60 days prior to May 31, 2011 an update of the MBV on May 31, 2011, and subsequently on an annual basis unless otherwise agreed by the parties.
- In the event the parties cannot agree upon a MBV for any period after good faith negotiations, the Agreement shall remain in good standing until such time as the matter of the MBV has been referred to and determined by arbitration as set forth in the Agreement. The ultimate determination from the arbitration process will be retroactively applied to the beginning of the period for the purposes of calculating the MBV for the 12 month period. If the matter of the MBV is submitted to arbitration, both parties agree that the key bench marks to be considered by the arbitrators in setting new MBV for the parties are:
 - VUZIX' Unit sales volumes in each of North America and in Europe for the prior calendar year period, are to be averaged and considered as a starting MBV from which the following factors (up and down) are to be considered in determining the new MBV for the Territory:
 - i. The average Unit volumes in North America and Europe are to exclude unusual Unit volumes caused by wireless carrier OEM subsidies and partnership arrangements which artificially reduces end user retail buying prices causing an increase in unit volumes because of the implied lower end user buying price. This exclusion from the average Unit volumes is only apply so long as similar wireless carrier or OEM subsidies and partnership arrangements are not taking place in the Territory.

- ii. If the market share of the Products in the Territory is greater than that of VUZIX in the North American and in Europe.
 - iii. The per-capita sales in Japan are to also be compared against the average per-capita sales in the North America and Europe. In the event Japanese per-capita sales are less and it is reasonably due primarily to cultural or other “Asian market influences” which negatively affect sales, the Unit sales of the North America and the European market places are to be discounted on a reasonable basis when used as the benchmarks for the Territory.
 - iv. VUZIX Product development timelines and the timeliness of new or improved Products which result in increased competitive advantage to the Products.
- In the event the RESELLER License becomes non-exclusive as per Section 1.4 of this Agreement, the criteria for the determination of the Minimum Business Volumes for each annual period after the first Date of Determination will be renegotiated and reduced accordingly. If the RESELLER falls below [***]% of the total annual unit volume of VUZIX based video eyewear Products within the Territory, then VUZIX will have the option to terminate this Agreement as per Section 11, for RESELLER’s lack of performance.

Initial Funding Target for RESELLER: RESELLER will raise a minimum of \$[*****] and open an office in Beijing by December 31, 2009

Initial Funding and Operational Date: December 31, 2009

Minimum for Manufacturing Amount: [*****] units of Product and the RESELLER shall provide VUZIX with a certificate advising VUZIX that in the RESELLER’s opinion RESELLER has sufficient capital to undertake manufacturing operations with a viable business model of at least 12 months and supporting materials to validate the certificate.

Minimum Cumulative sales of Products required by Date of Determination: [*****] units of Product.

SCHEDULE C
PRICING and PAYMENT TERMS

Pricing:

- All prices are in US dollars, CIF Beijing
- Products include a one-year warranty provided by VUZIX to the end user customer
- Products are assumed packaged with English and Mandarin manual
- Pricing to RESELLER is to be the best price for equivalent volumes offered by VUZIX to its best resellers for the same Product, plus all costs of CIF Beijing added to the RESELLER's buying price.
- As a further reasonableness test, discounts offered to RESELLER will at least be as great as the average gross margin report reported on VUZIX in its financial statements.
- All pricing excludes any transfer pricing used by VUZIX worldwide and its affiliates.
- All pricing excludes any limited time discounts regarding clearance of products and end life product changeover, provided similar offers have been made to RESELLER in any given calendar quarter. Such discounting will only be available for orders received by VUZIX after its official determination of its clearance activities and are not to be retroactively applied.
- The following pricing adjustments (whether paid by Credit Memo, free products, or a reduction in the net selling price) are not to be factored in to the determination of "best price" unless they are given generally to North American resellers consistently and not considered marketing expenses:
 - Promotional allowances,
 - Market Development Funds,
 - Catalog fees,
 - Stocking fees, new SKU and Planogram allowances,
 - Coop advertising allowances,
 - New store opening allowances,
 - Demo allowances including Point of Purchase demonstrators,
 - Other advertising or marketing related merchandise allowances

Payment Terms:

- All payments will be made in US dollars and secured by Letter of Credit acceptable to the bank providing credit facilities to VUZIX as collateral for such credit facilities.
- VUZIX must wait 30 days after delivery prior to presenting Letters of Credit for payment.

SCHEDULE D

MANUFACTURING BY RESELLER IN THE TERRITORY

In this Agreement, "Intellectual Property" means all patents, patent applications, copyright, trade-marks, trade secrets, know how and any other intellectual property necessary for the manufacture of the Products.

Description of Key Components (estimate based on VUZIX's currently planned product line):

Wrap:

- [*****]
- o [*****]†
- o [*****]
- o [*****]
- o [*****]
- o [*****]
- [*****]
- † [*****]

Blade 2D:

- [*****]
- o [*****]
- o [*****]
- o [*****]
- o [*****]
- o [*****]
- [*****]†
- o [*****]
- [*****]
- † [*****]

Scanning Blade

- [*****]
- o [*****]
- o [*****]
- o [*****]
- o [*****]
- o [*****]
- o [*****]
- [*****]†
- o [*****]
- [*****]
- † [*****].

SCHEDULE E

QUALITY CONTROL

- A. VUZIX agrees to strive for minimal defects and continuous quality excellence as part of its standard quality levels, set formally and or informally, for its consumer product lines. VUZIX warrants that it shall ship to RESELLER only those Products or Key Components which have passed the inspection standard established by VUZIX and that all the Products or Key Components shipped hereunder shall conform to their specifications and be free from defects in design, materials and workmanship, and will perform in accordance with their specifications for the period disclosed in the Product manual and warranty documentation included by VUZIX with each Product.
- B. VUZIX shall cause to establish and maintain a Quality Assurance Program with respect to the Products and Key Components reasonably necessary to assure their performance and the protection of RESELLER's goodwill. As part of such Program, VUZIX shall cause to have the Products and Key Components inspected and shall provide to RESELLER a Certificate of Compliance with each shipment of Products or Key Components and shall make available to RESELLER quality records as and when reasonably requested including but not limited to, copies of VUZIX's quality procedures, manuals and certifications.
- C. VUZIX will pass through the quality specifications received and warranted by our component suppliers, including those for Key Components, to the final product specifications and quality levels of the final Key Component or Product being manufactured and supplied to the RESELLER
- D. If VUZIX licenses RESELLER for the production of any particular Product (during the Manufacturing Stage), the RESELLER shall be responsible for all QA Control for that Product model other than for that of Key Components.
- E. During the production process any changes, either from VUZIX or requested by the RESELLER, will be controlled and communicated through VUZIX's standard Engineering Change Notice ("ECN").
- F. In the event there is a quality problem with Products or Key Components delivered to the RESELLER, RESELLER has the right to request by way of an Corrective Action Request ("CAR") that an analysis and corrective measures, if applicable, be used to identify and fix the quality problem. The responses by VUZIX to the CAR will identify the corrective action required to be implemented to fix any identified quality problem. Further, VUZIX shall issue ongoing status reports on a timely basis regarding the implementation of the corrective actions, as defined in VUZIX's Quality Assurance Program. In each CAR, RESELLER shall classify the level of severity for the problem it is reporting (critical, major and minor). Vuzix agrees respond promptly (within 14 days) from the time of the initial report by CAR as per its Quality Assurance Program.
- G. If Vuzix decides to change the Product being supplied to the RESELLER, Vuzix shall given notice to RESELLER as per Section 4.3 of this Agreement prior to making any changes.
- H. VUZIX may discontinue manufacture of any models of the Products or Key Components offered hereunder only upon three (3) months prior notice to RESELLER. RESELLER may place end-of-life POs for Products or Key Components and spare parts during this period. VUZIX will accept delivery schedules for end-of-life spare parts, Products, and Key Components up to three (3) months after such end-of-life PO has been placed, and will have

no obligation to supply spare parts or discontinued Key Components thereafter other than for the duration of applicable warranty.

- I. Vuzix shall keep commercially reasonable records of all quality measures implemented by VUZIX and related documentation, such as, but not limited to test results and root cause analysis for a period of at least two (2) years from the last delivery of the relevant Products to RESELLER.
- J. For purposes such as Product safety notification, operational problem correction and contact compliance, RESELLER will use commercially reasonable efforts to maintain records of second-tier RESELLER and/or customer purchases within the Territory, which should at a minimum must include such purchaser's name, address, phone number, date of sale, Product numbers, quantities, serial numbers, and shipment address.
- K. For operational purposes in supporting the provision of warranty services to customers within the Territory, the parties will periodically negotiate the setup of adequate replacement Products and/or Key Component inventories so that individual warranty servicing and shipping costs may be minimized. Such activities can include the shipment of replacement parts and/or Products to the RESELLER, including the provision of extra (no-charge) warranty inventory that could be included with each RESELLER shipment or handled by separate shipments periodically. Any inventories of warranty spare parts or Products will be monitored by the parties and adjusted periodically to provide an adequate level of timely customer support regarding warranty items and overall warranty support costs.

SCHEDULE F

WARRANTIES (for VUZIX current Product line)

This Warranty will be identical to Vuzix' standard US warranty subject to required changes to make the warranty in compliance with local law in the Territory.

Important Safety Instructions

Follow these safety instructions when using or handling your VUZIX Video Eyewear to reduce the risk of fire, electric shock, and injury to persons and property.

1. READ ALL OF THE INSTRUCTIONS AND SAFETY INFORMATION PROVIDED BEFORE USING THIS PRODUCT.
2. Use the product only for its intended use, as described in this manual.
3. Close supervision is needed when this product is by or near children.
4. Children under the age of seven (7) are still learning to focus and track with their eyes. Their vision is still immature. For these reasons, **THIS PRODUCT SHOULD NOT BE USED BY CHILDREN UNDER THE AGE OF SEVEN (7).**
5. A very small portion of the population may experience epileptic seizures when viewing certain kinds of flashing lights or patterns that are commonly present in our daily environment. These persons may also experience seizures while watching some kinds of television pictures or playing certain video games on regular monitors, including the use of a display system such as this. These effects can be increased due to the large size of the video screens in this device. Therefore consult a physician if you have any epileptic condition before using this device or if you experience any of the following symptoms while using this device: altered vision, muscle twitching, other involuntary movements, loss of awareness of your surroundings, mental confusion, and/or convulsions.
6. Immersive video, whether viewed on a regular TV, a movie theater screen or a VUZIX video display, can potentially have adverse effects on the user including motion sickness, perceptual after effects and disorientation, and decreased postural stability and eye strain. Take frequent breaks to lessen the potential of these effects, as is commonly suggested for other items, such as keyboards and computer monitors, that you may tend to fixate or concentrate on. If your eyes show signs of fatigue or dryness or if any of the above symptoms is noted, immediately discontinue use of this device and do not resume using it for at least 30 minutes after the symptoms have fully subsided.
7. Permanent or temporary hearing loss or impairment can result from excessive volume levels emitted from the headphones. Always adjust the volume to a safe level BEFORE wearing the product or headphones.
8. Always be aware of the world around you. This product will immerse you in realistic sights and sounds, possibly causing you to forget about the real world around you and the threats to your well being and the well being of others. **DO NOT** use this product near stairs, balconies, or other things that can be tripped over, run into, knocked down or fallen over. This product should only be used while you are seated and never while using sharp or potentially dangerous objects, operating any form of mechanical device, driving motor vehicles, or performing any act that normally requires you to see what you are doing.
9. This product may be tethered to a power outlet and cables may extend between components. Be careful that these cords do not tangle around you or pose a potential threat to the safety of others.
10. Do not disassemble this product. If service work is required, contact VUZIX using the Support contact information shown in this manual.
11. Do not pull or yank on the cable, kink any of the cables or tie them in sharp or tight knots. Do not hang the product or allow it to be suspended by any of its cables. To disconnect cables, pull on the cable connector. Cables damaged by such actions are not covered by the product's limited warranty.

12. Do not drop, strike, or cause any portion of the product to be struck or shaken aggressively. Such actions may damage the product and void your warranty.

13. Save these instructions.

Immediately unplug the product from external power sources if:

- The power adaptor, power cord or USB cord is damaged or frayed.
- Liquid has been sprayed, splashed or poured on the product.
- Any component of the product has been dropped or damaged.
- The product exhibits any distinct change in performance.

Battery Safety Instructions

- Batteries contain toxic materials. Do not burn, disassemble, mutilate, or puncture the batteries.
- Do not dispose of batteries in a fire.
- Dispose of batteries in a method that is consistent with your local laws and regulations.

Vuzix Hardware Product Limited Warranty

Vuzix warrants that your Vuzix hardware product shall be free from defects in material and workmanship for the length of time specified in the Warranty Period (one year), beginning from the date of purchase. If your Vuzix hardware product is used for commercial purposes (including rental or lease) the Warranty Period shall be reduced to ninety (90) days from date of purchase. Except where prohibited by applicable law, this warranty is nontransferable and is limited to the original purchaser and does not apply to anyone else, including anyone to whom you later make any transfer or sale. This warranty gives you specific legal rights, and you may also have other rights that vary under local laws, some of which are not affected by the warranties in this Limited Warranty.

This Limited Warranty does not cover, and no warranty of any kind is provided with respect to any subjective or aesthetic aspects of the hardware product. Vuzix does not warrant that the operation of the product will be uninterrupted or error-free. The limited warranty stated above is the only warranty made to You and is provided in lieu of all other express or implied warranties and conditions (except for any non-disclaimable implied warranties that exist), including any created by any other documentation or packaging. No information or suggestions (oral or in a record) given by Vuzix, its agents, affiliates, dealers or suppliers or its or their employees or agents, shall create a warranty or condition or expand the scope of this Limited Warranty.

Any software distributed with the hardware product by Vuzix with or without the Vuzix brand name is not covered under this Limited Warranty. Refer to the licensing agreement accompanying the software (viewable upon its installation), for details of your rights with respect to its use.

Remedies

Vuzix's entire liability and your exclusive remedy for any breach of warranty shall be, at Vuzix's option, (1) to repair or replace all or part of the hardware, 2) exchange the hardware with a product that is new or which has been manufactured from new or serviceable used parts and is at least functionally equivalent to the original product, or (3) to refund the price paid by You less reasonable depreciation based on your actual use, provided that the hardware is returned to the point of purchase or such other place as Vuzix may direct with a copy of the sales receipt or dated itemized receipt. Except where prohibited by applicable law, all shipping and handling costs associated with transport (including packaging) for warranty service shall be at your expense. Vuzix may, at its option, use new or refurbished or used parts in good working condition to repair or replace any hardware product. Any replacement hardware product will be warranted for the remainder of the original warranty period or thirty (30) days, whichever is longer or for any additional period of time that may be applicable in your jurisdiction. This warranty does not cover problems or damage resulting from (1) Acts of God, power surge, misuse,

abuse, negligence, accident, wear and tear, mishandling, misapplication, or other causes unrelated to defects in the hardware device (2) any unauthorized repair, modification, tampering or disassembly; (3) improper operation or maintenance, usage not in accordance with product instructions or connection to improper voltage supply; or (3) use of consumables, such as replacement batteries, not supplied by Vuzix except where such restriction is prohibited by applicable law or (4) use of the products in connection with any hardware or software other than recommended by Vuzix in the documentation accompanying the product.

How to Obtain Technical Support

Technical support is defined as assistance with questions on issues about the Vuzix hardware product. Technical support for hardware and its software is available for the first ninety (90) days from date of product purchase. Your dated sales or delivery receipt, showing the date of purchase or lease of the product, is your proof of the purchase or lease date. You may be required to provide proof of purchase or lease as a condition of receiving software technical support. The addresses and technical service contact information for Vuzix can be found in the documentation accompanying your product and on the web at our global site: www.vuzix.com.

How to Obtain Warranty Support

Vuzix is the warrantor under this Limited Warranty. Before submitting a warranty claim, we recommend you visit the support section at www.Vuzix.com for technical assistance. Warranty claims cannot be processed through the point of purchase and any other product related questions should be addressed directly to Vuzix. The addresses and customer service contact information for Vuzix can be found in the documentation accompanying your product and on the web at our global site at www.vuzix.com, which will also identify any Vuzix subsidiary or branch serving your country and its local address. You may also write to: Vuzix Sales Support, 75 Town Centre Drive, Rochester, NY 14623, USA. Limitation of Liability

- 18.3 VUZIX SHALL NOT BE LIABLE FOR ANY SPECIAL, INDIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES WHATSOEVER, INCLUDING BUT NOT LIMITED TO LOSS OF PROFITS, REVENUE OR DATA (WHETHER DIRECT OR INDIRECT) OR COMMERCIAL LOSS FOR BREACH OF ANY EXPRESS OR IMPLIED WARRANTY ON YOUR PRODUCT EVEN IF VUZIX HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. VUZIX's maximum liability under this limited warranty is limited, at Vuzix's option, to the amounts originally paid by you for the applicable hardware product or the cost of repair or replacement of any hardware components that malfunction in conditions of normal use during the applicable warranty period. Some jurisdictions do not allow the exclusion or limitation of special, indirect, incidental or consequential damages, so the above limitation or exclusion may not apply to you, but the remainder of this Limited Warranty shall remain in full force and effect.

Duration of Implied Warranties

EXCEPT TO THE EXTENT PROHIBITED BY APPLICABLE LAW, ANY IMPLIED WARRANTY OR CONDITION OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ON THIS HARDWARE PRODUCT IS LIMITED IN DURATION TO THE LIMITED WARRANTY PERIOD STATE ABOVE FOR YOUR PRODUCT. Some jurisdictions do not allow limitations on how long an implied warranty lasts, so the above limitation may not apply to you. Please note that in the European Union, any warranty period less than two years shall be increased to two years except in the case of use for commercial purposes.

SCHEDULE G

List all IP protection applied for by VUZIX within the Territory for current and future Products – as of June 30, 2009.
 New applications and issues are to be updated at least once each calendar year.

Matter	Type	App Number	File Date	Pat/Reg Number	Issue Date	Status	Title
82	D	200530016861.0	30-May-05	ZL200530016861.0	24-Oct-06	ISSUED	VIRTUAL DISPLAY EYEGLASSES
85	D		30-May-05	200530016863.X	25-Oct-06	ISSUED	PORTABLE VIRTUAL DISPLAY
*****	***	*****	*****			FILED	*****
*****	***	*****	*****			FILED	*****
*****	***	*****	*****			FILED	*****
*****	***	*****	*****			FILED	*****
*****	***	*****	*****			FILED	*****
*****	***	*****	*****			FILED	*****
*****	***	*****	*****			FILED	*****
*****	***	*****	*****			FILED	*****
*****	***	*****	*****			FILED	*****
227	U		13-May-98	ZL 98109836.3	12-Jan-05	ISSUED	Video Image Viewing Device and Method
	***	*****	*****			TBD	*****
	***	*****	*****			TBD	*****
	***	*****	*****			TBD	*****
	***	*****	*****			TBD	*****

D = Design Patent
 U = Utility Patent
 T = Trademark

**Amendment No. 1
to the
Amended and Restated Fiscal Advisory Fee Agreement**

This Amendment No. 1 (this "**Amendment**") to the Amended and Restated Fiscal Advisory Fee Agreement, dated November 12, 2009 (the "**Agreement**"), is entered into by and among Vuzix Corporation (the "**Company**"), Canaccord Capital Corporation ("**Canaccord**") and Bolder Investment Partners, Ltd. ("**Bolder**" together with Canaccord, the "**Advisors**," and collectively with the Company, the "**Parties**"), effective as of December 1, 2009 (the "**Effective Date**").

RECITALS

WHEREAS, pursuant to the Agreement, the Company has agreed to issue to the Advisors a fiscal advisory fee (the "**Fiscal Advisory Fee**") equal to 1% of the aggregate number of shares of the Company's common stock outstanding as of the date of closing of the Company's initial public offering (the "**Payment Shares**"); and

WHEREAS, in order to comply with Rule 5110 of the Financial Industry Regulatory Authority, Inc. ("**FINRA**"), the Parties have agreed to limit the number of shares issuable to Canaccord pursuant to the Fiscal Advisory Fee to 25% of the maximum number of Payment Shares issuable under the Agreement, not to exceed 699,282 shares of the Company's common stock.

NOW THEREFORE, the Parties to this Amendment hereby agree as follows:

1. Section 4. Section 4 of the Agreement shall be amended to read as follows: "Each of the Advisors will be entitled to receive 25% of the Payment Shares. In addition, the Corporation may allocate all of the remaining 50% of the Payment Shares to Bolder and Canaccord at its sole discretion; provided however, that the aggregate number of Payment Shares allocated to Canaccord under this Agreement shall not exceed 699,282 shares of the Company's common stock."
2. Force and Effect. Except as explicitly amended by this Amendment, the Agreement shall remain unchanged and in full force and effect.

[Signatures on Following Page]

IN WITNESS WHEREOF, the Parties have executed and delivered this Amendment as of the Effective Date.

VUZIX CORPORATION

Per:

/s/ Paul J. Travers

Authorized Signatory

CANACCORD CAPITAL CORPORATION

Per:

/s/ David Rentz

Authorized Signatory

BOLDER INVESTMENT PARTNERS, LTD.

Per:

/s/ Paul Woodward

Authorized Signatory

ESCROW AGREEMENT

THIS AGREEMENT is made as of the • day of December, 2009.

AMONG:

VUZIX CORPORATION
(the “**Issuer**”)

AND:

COMPUTERSHARE INVESTOR SERVICES INC.
(the “**Escrow Agent**”)

AND:

EACH OF THE UNDERSIGNED SECURITYHOLDERS OF THE ISSUER
(a “**Securityholder**” or “**you**”)

(collectively, the “**Parties**”)

This Agreement is being entered into by the Parties under National Policy 46-201 — *Escrow for Initial Public Offerings* (the “**National Policy**”) and TSX Venture Exchange (the “**Exchange**”) Policy 5.4 — *Escrow, Vendor Consideration and Resale Restrictions* (the “**Policy**”) in connection with the Issuer’s proposed initial public offering of securities by prospectus.

The Issuer is a [**Tier 1/Tier 2 Issuer**] as described in Exchange Policy 2.1 — *Minimum Listing Requirements*.

For good and valuable consideration, the Parties agree as follows:

PART 1 ESCROW

1.1 Appointment of Escrow Agent

The Issuer and the Securityholders appoint the Escrow Agent to act as escrow agent under this Agreement. The Escrow Agent accepts the appointment.

1.2 Deposit of Escrow Securities in Escrow

(1) You are depositing the securities (“**escrow securities**”) listed opposite your name in Schedule “A” with the Escrow Agent to be held in escrow under this Agreement. You will immediately deliver or cause to be delivered to the Escrow Agent any share certificates or other evidence of these securities which you have or which you may later receive.

(2) If you receive any other securities (“**additional escrow securities**”):

- (a) as a dividend or other distribution on escrow securities;
- (b) on the exercise of a right of purchase, conversion or exchange attaching to escrow securities, including securities received on conversion of special warrants;
- (c) on a subdivision, or compulsory or automatic conversion or exchange of escrow securities; or
- (d) from a successor issuer in a business combination, if Part 6 of this Agreement applies,

you will deposit them in escrow with the Escrow Agent. You will deliver or cause to be delivered to the Escrow Agent any share certificates or other evidence of those additional escrow securities. When this Agreement refers to escrow securities, it includes additional escrow securities.

(3) You will immediately deliver to the Escrow Agent any replacement share certificates or other evidence of additional escrow securities issued to you.

1.3 Direction to Escrow Agent

The Issuer and the Securityholders direct the Escrow Agent to hold the escrow securities in escrow until they are released from escrow under this Agreement.

PART 2 RELEASE OF ESCROW SECURITIES

2.1 Release Provisions

The provisions of Schedules [B(1)/B(2)] are incorporated into and form part of this Agreement.

2.2 Additional Escrow Securities

If you acquire additional escrow securities in connection with the transaction to which this agreement relates, those securities will be added to the securities already in escrow, to increase the number of remaining escrow securities. After that, all of the escrow securities will be released in accordance with the applicable release schedule.

2.3 Delivery of Share Certificates for Escrow Securities

The Escrow Agent will send to each Securityholder any share certificates or other evidence of that Securityholder's escrow securities in the possession of the Escrow Agent released from escrow as soon as reasonably practicable after the release. **[The share certificates or other evidence of the escrow securities will be sent to the Securityholder's address on the Issuer's share register unless the Securityholder has advised the Escrow Agent in writing otherwise before the escrow securities are released from escrow.]**

2.4 Replacement Certificates

If, on the date a Securityholder's escrow securities are to be released, the Escrow Agent holds a share certificate or other evidence representing more escrow securities than are to be released, the Escrow Agent will deliver the share certificate or other evidence to the Issuer or its transfer agent and request replacement share certificates or other evidence. The Issuer will cause replacement share certificates or other evidence to be prepared and delivered to the Escrow Agent. After the Escrow Agent receives the replacement share certificates or other evidence, the Escrow Agent will send to the Securityholder or at the Securityholder's direction, the replacement share certificate or other evidence of the escrow securities released. The Escrow Agent and Issuer will act as soon as reasonably practicable.

2.5 Release upon Death

(1) If a Securityholder dies, the Securityholder's escrow securities will be released from escrow. The Escrow Agent will deliver any share certificates or other evidence of the escrow securities in the possession of the Escrow Agent to the Securityholder's legal representative provided that:

(a) the legal representative of the deceased Securityholder provides written notice to the Exchange of the intent to release the escrow securities as at a specified date which is at least 10 business days and not more than 30 business days prior to the proposed release; and

(b) the Exchange does not provide notice of its objection to the Escrow Agent prior to 10:00 a.m. (Vancouver time) or 11:00 a.m. (Calgary time) on such specified date.

(2) Prior to delivery the Escrow Agent must receive:

(a) a certified copy of the death certificate; and

(b) any evidence of the legal representative's status that the Escrow Agent may reasonably require.

2.6 Exchange Discretion to Terminate

If the Escrow Agent receives a request from the Exchange to halt or terminate the release of escrow securities from escrow, then the Escrow Agent will comply with that request, and will not release any escrow securities from escrow until it receives the written consent of the Exchange.

2.7 Discretionary Applications

The Exchange may consent to the release from escrow of escrow securities in other circumstances and on terms and on conditions it deems appropriate. Securities may be released from escrow provided that the Escrow Agent receives written notice from the Exchange.

PART 3 EARLY RELEASE ON CHANGE OF ISSUER STATUS

3.1 Early Release — Graduation to Tier 1

- (1) When a Tier 2 Issuer becomes a Tier 1 Issuer, the release schedule for its escrow securities changes.
- (2) If the Issuer reasonably believes that it meets the Minimum Listing Requirements of a Tier 1 Issuer as described in Exchange Policy 2.1 — *Minimum Listing Requirements*, the Issuer may make application to the Exchange to be listed as a Tier 1 Issuer. The Issuer must also concurrently provide notice to the Escrow Agent that it is making such an application.
- (3) If the graduation to Tier 1 is accepted by the Exchange, the Exchange will issue an Exchange Bulletin confirming final acceptance for listing of the Issuer on Tier 1. Upon issuance of this Bulletin the Issuer must immediately:
 - (a) issue a news release:
 - (i) disclosing that it has been accepted for graduation to Tier 1; and
 - (ii) disclosing the number of escrow securities to be released and the dates of release under the new schedule; and
 - (b) provide the news release, together with a copy of the Exchange Bulletin, to the Escrow Agent.
- (4) Upon completion of the steps in section 3.1(3) above, the Issuer's release schedule will be replaced as follows:

Applicable Schedule Pre-Graduation
Schedule B(2)

Applicable Schedule Post-Graduation
Schedule B(1)

- (5) Within 10 days of the Exchange Bulletin confirming the Issuer's listing on Tier 1, the Escrow Agent must release any escrow securities from escrow securities which under the new release schedule would have been releasable at a date prior to the Exchange Bulletin.

PART 4 DEALING WITH ESCROW SECURITIES

4.1 Restriction on Transfer, etc.

Unless it is expressly permitted in this Agreement, you will not sell, transfer, assign, mortgage, enter into a derivative transaction concerning, or otherwise deal in any way with your escrow securities or any related share certificates or other evidence of the escrow securities. If a Securityholder is a private company controlled by one or more Principals of the Issuer, the Securityholder may not participate in a transaction that results in a change of its control or a change in the economic exposure of the Principals to the risks of holding escrow securities.

4.2 Pledge, Mortgage or Charge as Collateral for a Loan

Subject to Exchange acceptance, you may pledge, mortgage or charge your escrow securities to a financial institution as collateral for a loan, provided that no escrow securities or any share certificates or other evidence of escrow securities will be transferred or delivered by the Escrow Agent to the financial institution for this purpose.

The loan agreement must provide that the escrow securities will remain in escrow if the lender realizes on the escrow securities to satisfy the loan.

4.3 Voting of Escrow Securities

Although you may exercise voting rights attached to your escrow securities, you may not, while your securities are held in escrow, exercise voting rights attached to any securities (whether in escrow or not) in support of one or more arrangements that would result in the repayment of capital being made on the escrow securities prior to a winding up of the Issuer.

4.4 Dividends on Escrow Securities

You may receive a dividend or other distribution on your escrow securities, and elect the manner of payment from the standard options offered by the Issuer. If the Escrow Agent receives a dividend or other distribution on your escrow securities, other than additional escrow securities, the Escrow Agent will pay the dividend or other distribution to you on receipt.

4.5 Exercise of Other Rights Attaching to Escrow Securities

You may exercise your rights to exchange or convert your escrow securities in accordance with this agreement.

PART 5 PERMITTED TRANSFERS WITHIN ESCROW

5.1 Transfer to Directors and Senior Officers

(1) You may transfer escrow securities within escrow to existing or, upon their appointment, incoming directors or senior officers of the Issuer or any of its material operating subsidiaries, if the Issuer's board of directors has approved the transfer and provided that:

(a) you make application to transfer under the Policy at least 10 business days and not more than 30 business days prior to the date of the proposed transfer; and

(b) the Exchange does not provide notice of its objection to the Escrow Agent prior to 10:00 a.m. (Vancouver time) or 11:00 a.m. (Calgary time) on such specified date.

(2) Prior to the transfer the Escrow Agent must receive:

(a) a certified copy of the resolution of the board of directors of the Issuer approving the transfer;

(b) a certificate signed by a director or officer of the Issuer authorized to sign, stating that the transfer is to a director or senior officer of the Issuer or a material operating subsidiary and that any required acceptance from the Exchange the Issuer is listed on has been received;

(c) an acknowledgment in the form of Form 5E signed by the transferee; and

(d) a transfer power of attorney, completed and executed by the transferor in accordance with the requirements of the Issuer's transfer agent.

5.2 Transfer to Other Principals

(1) You may transfer escrow securities within escrow:

(a) to a person or company that before the proposed transfer holds more than 20% of the voting rights attached to the Issuer's outstanding securities; or

(b) to a person or company that after the proposed transfer

(i) will hold more than 10% of the voting rights attached to the Issuer's outstanding securities, and

(ii) has the right to elect or appoint one or more directors or senior officers of the Issuer or any of its material operating subsidiaries,

provided that:

(c) you make an application to transfer under the Policy at least 10 business days and not more than 30 business days prior to the date of the proposed transfer; and

(d) the Exchange does not provide notice of its objection to the Escrow Agent prior to 10:00 a.m. (Vancouver time) or 11:00 a.m. (Calgary time) on such specified date.

(2) Prior to the transfer the Escrow Agent must receive:

(a) a certificate signed by a director or officer of the Issuer authorized to sign, stating that:

(i) the transfer is to a person or company that the officer believes, after reasonable investigation, holds more than 20% of the voting rights attached to the Issuer's outstanding securities before the proposed transfer; or

(ii) the transfer is to a person or company that:

(A) the officer believes, after reasonable investigation, will hold more than 10% of the voting rights attached to the Issuer's outstanding securities; and

(B) has the right to elect or appoint one or more directors or senior officers of the Issuer or any of its material operating subsidiaries

after the proposed transfer; and

(iii) any required approval from the Exchange or any other exchange on which the Issuer is listed has been received;

(b) an acknowledgment in the form of Form 5E signed by the transferee; and

(c) a transfer power of attorney, completed and executed by the transferor in accordance with the requirements of the Issuer's transfer agent.

5.3 Transfer upon Bankruptcy

(1) You may transfer escrow securities within escrow to a trustee in bankruptcy or another person or company entitled to escrow securities on bankruptcy provided that:

(a) you make application to transfer under the Policy at least 10 business days and not more than 30 business days prior to the date of the proposed transfer; and

(b) the Exchange does not provide notice of its objection to the Escrow Agent prior to 10:00 a.m. (Vancouver time) or 11:00 a.m. (Calgary time) on such specified date.

(2) Prior to the transfer, the Escrow Agent must receive:

(a) a certified copy of either

(i) the assignment in bankruptcy filed with the Superintendent of Bankruptcy, or

(ii) the receiving order adjudging the Securityholder bankrupt;

(b) a certified copy of a certificate of appointment of the trustee in bankruptcy;

(c) a transfer power of attorney, duly completed and executed by the transferor in accordance with the requirements of the Issuer's transfer agent; and

(d) an acknowledgment in the form of Form 5E signed by

(i) the trustee in bankruptcy or

(ii) on direction from the trustee, with evidence of that direction attached to the acknowledgement form, another person or company legally entitled to the escrow securities.

5.4 Transfer Upon Realization of Pledged, Mortgaged or Charged Escrow Securities

(1) You may transfer escrow securities you have pledged, mortgaged or charged under section 4.2 to a financial institution as collateral for a loan within escrow to the lender on realization provided that:

- (a) you make application to transfer under the Policy at least 10 business days and not more than 30 business days prior to the date of the proposed transfer; and
- (b) the Exchange does not provide notice of its objection to the Escrow Agent prior to 10:00 a.m. (Vancouver time) or 11:00 a.m. (Calgary time) on such specified date.

(2) Prior to the transfer the Escrow Agent must receive:

- (a) a statutory declaration of an officer of the financial institution that the financial institution is legally entitled to the escrow securities;
- (b) evidence that the Exchange has accepted the pledge, mortgage or charge of escrow securities to the financial institution;
- (c) a transfer power of attorney, executed by the transferor in accordance with the requirements of the Issuer's transfer agent; and
- (d) an acknowledgement in the form of Form 5E signed by the financial institution.

5.5 Transfer to Certain Plans and Funds

(1) You may transfer escrow securities within escrow to or between a registered retirement savings plan (RRSP), registered retirement income fund (RRIF) or other similar registered plan or fund with a trustee, where the beneficiaries of the plan or fund are limited to you and your spouse, children and parents provided that:

- (a) you make application to transfer under the Policy at least 10 business days and not more than 30 business days prior to the date of the proposed transfer; and
- (b) the Exchange does not provide notice of its objection to the Escrow Agent prior to 10:00 a.m. (Vancouver time) or 11:00 a.m. (Calgary time) on such specified date.

(2) Prior to the transfer the Escrow Agent must receive:

- (a) evidence from the trustee of the transferee plan or fund, or the trustee's agent, stating that, to the best of the trustee's knowledge, the annuitant of the RRSP or RRIF or the beneficiaries of the other registered plan or fund do not include any person or company other than you and your spouse, children and parents;
- (b) a transfer power of attorney, executed by the transferor in accordance with the requirements of the Issuer's transfer agent; and
- (c) an acknowledgement in the form of Exchange Form 5E signed by the trustee of the plan or fund.

5.6 Effect of Transfer Within Escrow

After the transfer of escrow securities within escrow, the escrow securities will remain in escrow and released from escrow under this Agreement as if no transfer has occurred, on the same terms that applied before the transfer. The Escrow Agent will not deliver any share certificates or other evidence of the escrow securities to transferees under this Part 5.

5.7 Discretionary Applications

The Exchange may consent to the transfer within escrow of escrow securities in other circumstances and on such terms and conditions as it deems appropriate.

PART 6 BUSINESS COMBINATIONS

6.1 Business Combinations

This Part applies to the following (“**business combinations**”):

- (a) a formal take-over bid for all outstanding securities of the Issuer or which, if successful, would result in a change of control of the Issuer;
- (b) a formal issuer bid for all outstanding equity securities of the Issuer;
- (c) a statutory arrangement;
- (d) an amalgamation;
- (e) a merger; and
- (f) a reorganization that has an effect similar to an amalgamation or merger.

6.2 Delivery to Escrow Agent

(1) You may tender your escrow securities to a person or company in a business combination. At least five business days prior to the date the escrow securities must be tendered under the business combination, you must deliver to the Escrow Agent:

- (a) a written direction signed by you that directs the Escrow Agent to deliver to the depository under the business combination any share certificates or other evidence of the escrow securities and a completed and executed cover letter or similar document and, where required, transfer power of attorney completed and executed for transfer in accordance with the requirements of the Issuer’s depository, and any other documentation specified or provided by you and required to be delivered to the depository under the business combination;
- (b) written consent of the Exchange; and
- (c) any other information concerning the business combination as the Escrow Agent may reasonably require.

6.3 Delivery to Depository

(1) As soon as reasonably practicable, and in any event no later than three business days after the Escrow Agent receives the documents and information required under section 6.2, the Escrow Agent will deliver to the depository, in accordance with the direction, any share certificates or other evidence of the escrow securities, and a letter addressed to the depository that

- (a) identifies the escrow securities that are being tendered;
 - (b) states that the escrow securities are held in escrow;
 - (c) states that the escrow securities are delivered only for the purposes of the business combination and that they will be released from escrow only after the Escrow Agent receives the information described in section 6.4;
 - (d) if any share certificates or other evidence of the escrow securities have been delivered to the depository, requires the depository to return to the Escrow Agent, as soon as practicable, the share certificates or other evidence of escrow securities that are not released from escrow into the business combination; and
 - (e) where applicable, requires the depository to deliver or cause to be delivered to the Escrow Agent, as soon as practicable, share certificates or other evidence of additional escrow securities that you acquire under the business combination.
-

6.4 Release of Escrow Securities to Depositary

- (1) The Escrow Agent will release from escrow the tendered escrow securities provided that:
 - (a) you or the Issuer make application to release the tendered securities under the Policy on a date at least 10 business days and not more than 30 business days prior to the date of the proposed release date; and
 - (b) the Exchange does not provide notice of its objection to the Escrow Agent prior to 10:00 a.m. (Vancouver time) or 11:00 a.m. (Calgary time) on such specified date;
 - (c) the Escrow Agent receives a declaration signed by the depositary or, if the direction identifies the depositary as acting on behalf of another person or company in respect of the business combination, by that other person or company, that
 - (i) the terms and conditions of the business combination have been met or waived; and
 - (ii) the escrow securities have either been taken up and paid for or are subject to an unconditional obligation to be taken up and paid for under the business combination.

6.5 Escrow of New Securities

- (1) If you receive securities ("**new securities**") of another issuer ("**successor issuer**") in exchange for your escrow securities, the new securities will be subject to escrow in substitution for the tendered escrow securities, unless, immediately after completion of the business combination,
 - (a) the successor issuer is an exempt issuer as defined in the National Policy;
 - (b) the escrow holder was subject to a Value Security Escrow Agreement and is not a Principal of the successor issuer; and
 - (c) the escrow holder holds less than 1% of the voting rights attached to the successor issuer's outstanding securities. (In calculating this percentage, include securities that may be issued to the escrow holder under outstanding convertible securities in both the escrow holder's securities and the total securities outstanding.)

6.6 Release from Escrow of New Securities

- (1) The Escrow Agent will send to a Securityholder share certificates or other evidence of the Securityholder's new securities as soon as reasonably practicable after the Escrow Agent receives:
 - (a) a certificate from the successor issuer signed by a director or officer of the successor issuer authorized to sign
 - (i) stating that it is a successor issuer to the Issuer as a result of a business combination;
 - (ii) containing a list of the securityholders whose new securities are subject to escrow under section 6.5;
 - (iii) containing a list of the securityholders whose new securities are not subject to escrow under section 6.5;
 - (b) written confirmation from the Exchange that it has accepted the list of Securityholders whose new securities are not subject to escrow under section 6.5.
- (2) The escrow securities of the Securityholders, whose securities are not subject to escrow under section 6.5, will be released, and the Escrow Agent will send any share certificates or other evidence of the escrow securities in the possession of the Escrow Agent in accordance with section 2.4.
- (3) If your new securities are subject to escrow, unless subsection (4) applies, the Escrow Agent will hold your new securities in escrow on the same terms and conditions, including release dates, as applied to the escrow securities that you exchanged.

(4) If the Issuer is a Tier 2 Issuer and the successor issuer is a Tier 1 Issuer, the release provisions in section 3.1(4) relating to graduation will apply.

PART 7 RESIGNATION OF ESCROW AGENT

7.1 Resignation of Escrow Agent

(1) If the Escrow Agent wishes to resign as escrow agent, the Escrow Agent will give written notice to the Issuer and the Exchange.

(2) If the Issuer wishes to terminate the Escrow Agent as escrow agent, the Issuer will give written notice to the Escrow Agent and the Exchange.

(3) If the Escrow Agent resigns or is terminated, the Issuer will be responsible for ensuring that the Escrow Agent is replaced not later than the resignation or termination date by another escrow agent that is acceptable to the Exchange and that has accepted such appointment, which appointment will be binding on the Issuer and the Securityholders.

(4) The resignation or termination of the Escrow Agent will be effective, and the Escrow Agent will cease to be bound by this Agreement, on the date that is 60 days after the date of receipt of the notices referred to above by the Escrow Agent or Issuer, as applicable, or on such other date as the Escrow Agent and the Issuer may agree upon (the "resignation or termination date"), provided that the resignation or termination date will not be less than 10 business days before a release date.

(5) If the Issuer has not appointed a successor escrow agent within 60 days of the resignation or termination date, the Escrow Agent will apply, at the Issuer's expense, to a court of competent jurisdiction for the appointment of a successor escrow agent, and the duties and responsibilities of the Escrow Agent will cease immediately upon such appointment.

(6) On any new appointment under this section, the successor Escrow Agent will be vested with the same powers, rights, duties and obligations as if it had been originally named herein as Escrow Agent, without any further assurance, conveyance, act or deed. The predecessor Escrow Agent, upon receipt of payment for any outstanding account for its services and expenses then unpaid, will transfer, deliver and pay over to the successor Escrow Agent, who will be entitled to receive, all securities, records or other property on deposit with the predecessor Escrow Agent in relation to this Agreement and the predecessor Escrow Agent will thereupon be discharged as Escrow Agent.

(7) If any changes are made to Part 8 of this Agreement as a result of the appointment of the successor Escrow Agent, those changes must not be inconsistent with the Policy and the terms of this Agreement and the Issuer to this Agreement will file a copy of the new Agreement with the Exchange.

PART 8 OTHER CONTRACTUAL ARRANGEMENTS

8.1 Escrow Agent Not a Trustee

The Escrow Agent accepts duties and responsibilities under this Agreement, and the escrow securities and any share certificates or other evidence of these securities, solely as a custodian, bailee and agent. No trust is intended to be, or is or will be, created hereby and the Escrow Agent shall owe no duties hereunder as a trustee.

8.2 Escrow Agent Not Responsible for Genuineness

The Escrow Agent will not be responsible or liable in any manner whatever for the sufficiency, correctness, genuineness or validity of any escrow security deposited with it.

8.3 Escrow Agent Not Responsible for Furnished Information

The Escrow Agent will have no responsibility for seeking, obtaining, compiling, preparing or determining the accuracy of any information or document, including the representative capacity in which a party purports to act, that

the Escrow Agent receives as a condition to a release from escrow or a transfer of escrow securities within escrow under this Agreement.

8.4 Escrow Agent Not Responsible after Release

The Escrow Agent will have no responsibility for escrow securities that it has released to a Securityholder or at a Securityholder's direction according to this Agreement.

8.5 Indemnification of Escrow Agent

The Issuer and each Securityholder hereby jointly and severally agree to indemnify and hold harmless the Escrow Agent, its affiliates, and their current and former directors, officers, employees and agents from and against any and all claims, demands, losses, penalties, costs, expenses, fees and liabilities, including, without limitation, legal fees and expenses, directly or indirectly arising out of, in connection with, or in respect of, this Agreement, except where same result directly and principally from negligence, willful misconduct or bad faith on the part of the Escrow Agent. This indemnity survives the release of the escrow securities, the resignation or termination of the Escrow Agent and the termination of this Agreement.

8.6 Additional Provisions

(1) The Escrow Agent will be protected in acting and relying reasonably upon any notice, direction, instruction, order, certificate, confirmation, request, waiver, consent, receipt, statutory declaration or other paper or document (collectively referred to as "**Documents**") furnished to it and purportedly signed by any officer or person required to or entitled to execute and deliver to the Escrow Agent any such Document in connection with this Agreement, not only as to its due execution and the validity and effectiveness of its provisions, but also as to the truth or accuracy of any information therein contained, which it in good faith believes to be genuine.

(2) The Escrow Agent will not be bound by any notice of a claim or demand with respect thereto, or any waiver, modification, amendment, termination or rescission of this Agreement unless received by it in writing, and signed by the other Parties and approved by the Exchange, and, if the duties or indemnification of the Escrow Agent in this Agreement are affected, unless it has given its prior written consent.

(3) The Escrow Agent may consult with or retain such legal counsel and advisors as it may reasonably require for the purpose of discharging its duties or determining its rights under this Agreement and may rely and act upon the advice of such counsel or advisor. Provided that the Escrow Agent has obtained the prior written consent of the Issuer, the Issuer will pay or reimburse the Escrow Agent for any reasonable fees, expenses and disbursements of such counsel or advisors.

(4) In the event of any disagreement arising under the terms of this Agreement, the Escrow Agent will be entitled, at its option, to refuse to comply with any and all demands whatsoever until the dispute is settled either by a written agreement among the Parties or by a court of competent jurisdiction.

(5) The Escrow Agent will have no duties or responsibilities except as expressly provided in this Agreement and will have no duty or responsibility under the National Policy or arising under any other agreement, including any agreement referred to in this Agreement, to which the Escrow Agent is not a party.

(6) The Escrow Agent will have the right not to act and will not be liable for refusing to act unless it has received clear and reasonable documentation that complies with the terms of this Agreement. Such documentation must not require the exercise of any discretion or independent judgment.

(7) The Escrow Agent is authorized to cancel any share certificate delivered to it and hold such Securityholder's escrow securities in electronic or uncertificated form only, pending release of such securities from escrow.

(8) The Escrow Agent will have no responsibility with respect to any escrow securities in respect of which no share certificate or other evidence or electronic or uncertificated form of these securities has been delivered to it, or otherwise received by it.

8.7 Limitation of Liability of Escrow Agent

The Escrow Agent will not be liable to any of the Parties hereunder for any action taken or omitted to be taken by it under or in connection with this Agreement, except for losses directly, principally and immediately caused by its bad faith, willful misconduct or negligence. Under no circumstances will the Escrow Agent be liable for any special, indirect, incidental, consequential, exemplary, aggravated or punitive losses or damages hereunder, including any loss of profits, whether foreseeable or unforeseeable.

8.8 Remuneration of Escrow Agent

The Issuer will pay the Escrow Agent reasonable remuneration for its services under this Agreement, which fees are subject to revision from time to time on 30 days' written notice. The Issuer will reimburse the Escrow Agent for its reasonable expenses and disbursements. Any amount due under this Section and unpaid 30 days after request for such payment, will bear interest from the expiration of such period at a rate per annum equal to the then current rate charged by the Escrow Agent, payable on demand.

PART 9 INDEMNIFICATION OF THE EXCHANGE

9.1 Indemnification

(1) The Issuer and each Securityholder jointly and severally:

- (a) release, indemnify and save harmless the Exchange from all costs (including legal cost, expenses and disbursements), charges, claims, demands, damages, liabilities, losses and expenses incurred by the Exchange;
- (b) agree not to make or bring a claim or demand, or commence any action, against the Exchange; and
- (c) agree to indemnify and save harmless the Exchange from all costs (including legal costs) and damages that the Exchange incurs or is required by law to pay as a result of any person's claim, demand or action,

arising from any and every act or omission committed or omitted by the Exchange, in connection with this Agreement, even if said act or omission was negligent, or constituted a breach of the terms of this Agreement.

(2) This indemnity survives the release of the escrow securities and the termination of this Agreement.

PART 10 NOTICES

10.1 Notice to Escrow Agent

Documents will be considered to have been delivered to the Escrow Agent on the next business day following the date of transmission, if delivered by fax, the date of delivery, if delivered by hand during normal business hours or by prepaid courier, or 5 business days after the date of mailing, if delivered by mail, to the following:

Name and Address:	Computershare Investor Services Inc. 100 University Avenue, 8th Floor Toronto, Ontario, Canada, M5J 2Y1
Attention:	Manager, Corporate Trust
Fax:	•

10.2 Notice to Issuer

Documents will be considered to have been delivered to the Issuer on the next business day following the date of transmission, if delivered by fax, the date of delivery, if delivered by hand or by prepaid courier, or 5 business days after the date of mailing, if delivered by mail, to the following:

Name and Address: Vuzix Corporation
75 Town Centre Drive
Rochester, New York, 14623
Attention: Paul Travers
Fax: (585) 240-8003

10.3 Deliveries to Securityholders

Documents will be considered to have been delivered to a Securityholder on the date of delivery, if delivered by hand or by prepaid courier, or 5 business days after the date of mailing, if delivered by mail, to the address on the Issuer's share register.

Any share certificates or other evidence of a Securityholder's escrow securities will be sent to the Securityholder's address on the Issuer's share register unless the Securityholder has advised the Escrow Agent in writing otherwise at least ten business days before the escrow securities are released from escrow. The Issuer will provide the Escrow Agent with each Securityholder's address as listed on the Issuer's share register.

10.4 Change of Address

(1) The Escrow Agent may change its address for delivery by delivering notice of the change of address to the Issuer and to each Securityholder.

(2) The Issuer may change its address for delivery by delivering notice of the change of address to the Escrow Agent and to each Securityholder.

(3) A Securityholder may change that Securityholder's address for delivery by delivering notice of the change of address to the Issuer and to the Escrow Agent.

10.5 Postal Interruption

A party to this Agreement will not mail a Document if the party is aware of an actual or impending disruption of postal service.

PART 11 GENERAL

11.1 Interpretation — "holding securities"

Unless the context otherwise requires, all capitalized terms that are not otherwise defined in this Agreement, shall have the meanings as defined in Policy 1.1 — *Interpretation* or in Policy 5.4 — *Escrow, Vendor Consideration and Resale Restrictions*.

When this Agreement refers to securities that a Securityholder "holds", it means that the Securityholder has direct or indirect beneficial ownership of or control or direction over the securities.

11.2 Enforcement by Third Parties

The Issuer enters this Agreement both on its own behalf and as trustee for the Exchange and the Securityholders of the Issuer, and this Agreement may be enforced by either the Exchange, or the Securityholders of the Issuer, or both.

11.3 Termination, Amendment, and Waiver of Agreement

(1) Subject to subsection 11.3(3), this Agreement shall only terminate:

(a) with respect to all the Parties:

(i) as specifically provided in this Agreement;

(ii) subject to subsection 11.3(2), upon the agreement of all Parties; or

(iii) when the Securities of all Securityholders have been released from escrow pursuant to this Agreement; and

(b) with respect to a Party:

(i) as specifically provided in this Agreement; or

(ii) if the Party is a Securityholder, when all of the Securityholder's Securities have been released from escrow pursuant to this Agreement.

(2) An agreement to terminate this Agreement pursuant to section 11.3(1)(a)(ii) shall not be effective unless and until the agreement to terminate

(a) is evidenced by a memorandum in writing signed by all Parties;

(b) if the Issuer is listed on the Exchange, the termination of this Agreement has been consented to in writing by the Exchange; and

(c) has been approved by a majority vote of securityholders of the Issuer excluding in each case, Securityholders.

(3) Notwithstanding any other provision in this Agreement, the obligations set forth in section 9.1 shall survive the termination of this Agreement and the resignation or removal of the Escrow Agent.

(4) No amendment or waiver of this Agreement or any part of this Agreement shall be effective unless the amendment or waiver:

(a) is evidenced by a memorandum in writing signed by all Parties;

(b) if the Issuer is listed on the Exchange, the amendment or waiver of this Agreement has been approved in writing by the Exchange; and

(c) has been approved by a majority vote of securityholders of the Issuer excluding in each case, Securityholders.

(5) No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision (whether similar or not), nor shall any waiver constitute a continuing waiver, unless expressly provided.

11.4 Severance of Illegal Provision

Any provision or part of a provision of this Agreement determined by a court of competent jurisdiction to be invalid, illegal or unenforceable shall be deemed stricken to the extent necessary to eliminate any invalidity, illegality or unenforceability, and the rest of the Agreement and all other provisions and parts thereof shall remain in full force and effect and be binding upon the parties hereto as though the said illegal and/or unenforceable provision or part thereof had never been included in this Agreement.

11.5 Further Assurances

The Parties will execute and deliver any further documents and perform any further acts reasonably requested by any of the Parties to this agreement which are necessary to carry out the intent of this Agreement.

11.6 Time

Time is of the essence of this Agreement.

11.7 Consent of Exchange to Amendment

The Exchange must approve any amendment to this Agreement if the Issuer is listed on the Exchange at the time of the proposed amendment.

11.8 Additional Escrow Requirements

A Canadian exchange may impose escrow terms or conditions in addition to those set out in this Agreement.

11.9 Governing Laws

The laws of {insert principal jurisdiction} and the applicable laws of Canada will govern this Agreement.

11.10 Counterparts

The Parties may execute this Agreement by fax and in counterparts, each of which will be considered an original and all of which will be one agreement.

11.11 Singular and Plural

Wherever a singular expression is used in this Agreement, that expression is considered as including the plural or the body corporate where required by the context.

11.12 Language

This Agreement has been drawn up in the [English/French] language at the request of all parties. Cet acte a été rédigé en [anglais/français] à la demande de toutes les parties.

11.13 Benefit and Binding Effect

This Agreement will benefit and bind the Parties and their heirs, executors, administrators, successors and permitted assigns and all persons claiming through them as if they had been a Party to this Agreement.

11.14 Entire Agreement

This is the entire agreement among the Parties concerning the subject matter set out in this Agreement and supersedes any and all prior understandings and agreements.

11.15 Successor to Escrow Agent

Any corporation with which the Escrow Agent may be amalgamated, merged or consolidated, or any corporation succeeding to the business of the Escrow Agent will be the successor of the Escrow Agent under this Agreement without any further act on its part or on the part or any of the Parties, provided that the successor is recognized by the Exchange.

The Parties have executed and delivered this Agreement as of the date set out above.

COMPUTERSHARE INVESTOR SERVICES INC.

Authorized signatory

Authorized signatory

VUZIX CORPORATION

Authorized signatory

Authorized signatory

Signed, sealed and delivered by)
Paul Travers in the presence of:)
)
)

Signature of Witness)
)
)

Name) Paul Travers

Signed, sealed and delivered by)
Grant Russell in the presence of:)
)
)

Signature of Witness)
)
)

Name) Grant Russell

Signed, sealed and delivered by)
Paul Churnetski in the presence of:)
)
)

Signature of Witness)
)
)

Name) Paul Churnetski

Signed, sealed and delivered by
Steven Ward in the presence of:)
)
)
)

Signature of Witness)
)
)

Name) Steven Ward

Signed, sealed and delivered by
Adam Travers in the presence of:)
)
)
)

Signature of Witness)
)
)

Name) Adam Travers

TRAVERS FAMILY LLC

Paul Travers
Authorized Signatory

SCHEDULE "A" TO ESCROW AGREEMENT

Securityholder

Name: Paul Travers

Signature:

Address for Notice:

•

Securities:

Class and Type
(i.e. Value Securities or
Surplus Securities)

Shares of Common Stock

Stock Options

Number

Certificate(s) (if Applicable)

70,239,611

1,673,808

SCHEDULE "A" TO ESCROW AGREEMENT

Securityholder

Name: Grant Russell

Signature:

Address for Notice:

•

Securities:

Class and Type
(i.e. Value Securities or
Surplus Securities)

Shares of Common Stock

Stock Options

Number

Certificate(s) (if Applicable)

11,913,777

374,256

SCHEDULE "A" TO ESCROW AGREEMENT

Securityholder

Name: Paul Churnetski

Signature:

Address for Notice:

•

Securities:

Class and Type
(i.e. Value Securities or
Surplus Securities)

Shares of Common Stock

Stock Options

Number

Certificate(s) (if Applicable)

20,278,453

174,256

SCHEDULE "A" TO ESCROW AGREEMENT

Securityholder

Name: Steven Ward

Signature:

Address for Notice:

•

Securities:

Class and Type
(i.e. Value Securities or
Surplus Securities)

Shares of Common Stock

Stock Options

Number

Certificate(s) (if Applicable)

3,209,011

268,120

SCHEDULE "A" TO ESCROW AGREEMENT

Securityholder

Name: Adam Travers

Signature:

Address for Notice:

•

Securities:

Class and Type
(i.e. Value Securities or
Surplus Securities)

Number **Certificate(s) (if Applicable)**

Stock Options

60,000

SCHEDULE "A" TO ESCROW AGREEMENT

Securityholder

Name: Travers Family LLC

Signature:

Address for Notice:

•

Securities:

Class and Type
(i.e. Value Securities or
Surplus Securities)

Number

Certificate(s) (if Applicable)

Shares of Common Stock

834,285

SCHEDULE B(1) — TIER 1 VALUE SECURITY ESCROW AGREEMENT

RELEASE OF SECURITIES

Timed Release

Release Dates	Percentage of Total Escrowed Securities to be Released	Total Number of Escrowed Securities to be Released
[Insert date of Exchange Bulletin]	25%	
[Insert date 6 months following Exchange Bulletin]	25%	
[Insert date 12 months following Exchange Bulletin]	25%	
[Insert date 18 months following Exchange Bulletin]	25%	
TOTAL	100%	

* In the simplest case where there are no changes to the escrow securities initially deposited and no additional escrow securities, then the release schedule outlined above results in the escrow securities being released in equal tranches of 25%.

SCHEDULE B(2) — TIER 2 VALUE SECURITY ESCROW AGREEMENT

RELEASE OF SECURITIES

Timed Release

Release Dates	Percentage of Total Escrowed Securities to be Released	Total Number of Escrowed Securities to be Released
[Insert date of Exchange Bulletin]	10%	
[Insert date 6 months following Exchange Bulletin]	15%	
[Insert date 12 months following Exchange Bulletin]	15%	
[Insert date 18 months following Exchange Bulletin]	15%	
[Insert date 24 months following Exchange Bulletin]	15%	
[Insert date 30 months following Exchange Bulletin]	15%	
[Insert date 36 months following Exchange Bulletin]	15%	
TOTAL	100%	

* In the simplest case where there are no changes to the escrow securities initially deposited and no additional escrow securities, the release schedule outlined above results in the escrow securities being released in equal tranches of 15% after completion of the release on the date of the Exchange Bulletin.

SCHEDULE B(3)
UNDERTAKING OF HOLDING COMPANY

TO: THE TSX VENTURE EXCHANGE

• (the "Securityholder") has subscribed for and agreed to purchase, as principal, • shares of common stock of • (the "Escrowed Securities"). The Escrowed Securities will be held in escrow as detailed in the escrow agreement entered into between Vuzix Corporation (the "Issuer"), Computershare Investor Services Inc. and the Securityholder.

The undersigned Securityholder undertakes that, to the extent reasonably possible, it will not permit or authorize its securities to be issued or transferred, nor will it otherwise authorize any transaction involving any of its securities that could reasonably result in a change of its control without the prior consent of the TSX Venture Exchange, as long as the Issuer remains listed on the TSX Venture Exchange.

DATED this • day of December, 2009.

(Name of Securityholder — please print)

(Authorized Signature)

(Official Capacity — please print)

(Please print here name of individual whose signature appears above)

The Securityholder is directly controlled by the undersigned who undertakes that, to the extent reasonably possible, he will not permit or authorize securities of the Securityholder to be issued or transferred, nor otherwise carry out any transaction that could reasonably result in a change of control of the Securityholder without the prior consent of the TSX Venture Exchange, as long as the Issuer remains listed on the TSX Venture Exchange.

DATED this • day of December, 2009.

(Signature)

(Name of Controlling Securityholder — please print)

(Signature)

(Name of Controlling Securityholder — please print)

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. 6 to Registration Statement on Form S-1 of our report dated June 17, 2009 (except for Note 26, as to which the date is November 6, 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

December 7, 2009

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 Amendment No. 6 to Registration Statement on Form S-1 and related prospectus of Vuzix Corporation dated December 7, 2009.

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

Rochester, New York
December 7, 2009