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

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended March 31, 2017

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 001-35955

VUZIX CORPORATION

(Exact name of registrant as specified in its charter)

Delaware **State or other jurisdiction of incorporation or organization**	**04-3392453** **(I.R.S. Employer Identification No.)**
25 Hendrix Road, Suite A **West Henrietta, New York** **(Address of principal executive offices)**	**14583** **(Zip Code)**

Registrant's telephone number, including area code: (585) 359-5900

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

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 definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Emerging growth company ☐

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

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

As of May 10, 2017, there were 20,408,926 shares of the registrant's common stock outstanding.

Vuzix Corporation
INDEX

Part 1: FINANCIAL INFORMATION

Item 1: Condensed Consolidated Financial Statements

VUZIX CORPORATION

CONSOLIDATED BALANCE SHEETS

	(Unaudited) March 31, 2017	December 31, 2016
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 10,395,656	$ 14,533,944
Accounts Receivable	320,575	103,314
Inventories, Net	2,720,832	2,651,218
Manufacturing Vendor Prepayments	212,279	144,168
Prepaid Expenses and Other Assets	550,722	797,409
Total Current Assets	14,200,064	18,230,053
Long-Term Assets		
Fixed Assets, Net	3,413,262	3,364,908
Patents and Trademarks, Net	552,366	535,461
Software Development Costs, Net	143,225	214,838
Total Assets	$ 18,308,917	$ 22,345,260
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	$ 1,003,149	$ 1,085,472
Current Portion of Long-Term Debt, net of discount	518,374	1,416,480
Customer Deposits	108,285	66,162
Unearned Revenue	298,173	509,572
Accrued Expenses	1,245,973	1,331,983
Income and Other Taxes Payable	11,120	12,290
Total Current Liabilities	3,185,074	4,421,959
Long-Term Liabilities		
Derivative Liability	150,571	173,131
Accrued Expenses	25,832	28,333
Total Long-Term Liabilities	176,403	201,464
Total Liabilities	3,361,477	4,623,423
Stockholders' Equity		
Preferred Stock — $.001 Par Value, 5,000,000 Shares Authorized; 49,626 Shares Issued and Outstanding March 31, 2017, and December 31, 2016	50	50
Common Stock — $.001 Par Value, 100,000,000 Shares Authorized; 20,293,173 Shares Issued and Outstanding March 31, 2017 and 19,569,247 on December 31, 2016	20,293	19,569
Additional Paid-in Capital	95,947,859	94,541,168
Accumulated Deficit	(81,020,762)	(76,838,950)
Total Stockholders' Equity	14,947,440	17,721,837
Total Liabilities and Stockholders' Equity	$ 18,308,917	$ 22,345,260

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

VUZIX CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Preferred Stock		Common Stock		Additional Paid-In	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance — December 31, 2016	49,626	$ 50	19,569,247	$ 19,569	$ 94,541,168	$ (76,838,950)	$ 17,721,837
Conversion of Note Payable & Accrued Interest			532,152	532	1,196,809		1,197,341
Exercise of Warrants			168,203	168	(168)		—
Stock Based Compensation Expense					210,074		210,074
Exercise of Stock Options			23,571	24	(24)		—
Net Loss for the Quarter Ended March 31, 2017						(4,181,812)	(4,181,812)
Balance — March 31, 2017	49,626	$ 50	20,293,173	$ 20,293	$ 95,947,859	$ (81,020,762)	$ 14,947,440

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

VUZIX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For Three Months Ended March 31,	
	2017	2016
Sales of Products	$ 959,383	$ 363,839
Sales of Engineering Services	251,280	—
Total Sales	1,210,663	363,839
Cost of Sales — Products	953,903	602,977
Cost of Sales — Engineering Services	108,000	—
Total Cost of Sales	1,061,903	602,977
Gross Profit (Loss) (exclusive of depreciation shown separately below)	148,760	(239,138)
Operating Expenses:		
Research and Development	1,668,956	1,274,713
Selling and Marketing	1,030,999	1,126,499
General and Administrative	1,235,183	886,315
Depreciation and Amortization	239,830	169,188
Total Operating Expenses	4,174,968	3,456,715
Loss from Operations	(4,026,208)	(3,695,853)
Other Income (Expense)		
Other Taxes	(10,550)	(20,721)
Investment Income	17,900	9,455
Foreign Exchange Gain (Loss)	1,097	(3,949)
Amortization of Deferred Financing Costs	(11,453)	(11,581)
Gain (Loss) on Derivative Valuation	22,560	101,666
Amortization of Senior Term Debt Discount and Issuance Expenses	(134,192)	(121,206)
Interest Expense, net of Interest Income	(40,966)	(33,550)
Total Other Income (Expense)	(155,604)	(79,886)
Loss Before Provision for Income Taxes	(4,181,812)	(3,775,739)
Provision for Income Taxes	—	—
Net Loss	$ (4,181,812)	$ (3,775,739)
Preferred Stock Dividends	(413,464)	(393,824)
Earnings Available to Common Stockholders	(4,595,276)	(4,169,563)
Basic and Diluted Loss Per Share	$ (0.23)	$ (0.26)
Weighted-average Shares Outstanding:		
Basic and Diluted	19,714,396	16,102,374

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

VUZIX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ended March 31, 2017	2016
Cash Flows from Operating Activities		
Net Loss	$ (4,181,812)	$ (3,775,739)
Non-Cash Adjustments		
Depreciation and Amortization	239,830	169,188
Amortization of Software Development Costs in cost of sales products	71,613	71,612
Stock Based Option Compensation Expense	210,074	173,816
Amortization of Term Debt Discount	134,192	121,206
Amortization of Debt Issuance Costs	11,453	11,581
Common Stock and Warrants Issued for Services	—	38,925
(Gain) Loss on Derivative Valuation	(22,560)	(101,666)
(Increase) Decrease in Operating Assets		
Accounts Receivable	(217,261)	269,233
Inventories	(69,614)	(57,026)
Vendor Prepayments	(68,111)	33,337
Prepaid Expenses and Other Assets	246,687	169,204
Increase (Decrease) in Operating Liabilities		
Accounts Payable	(82,323)	(469,658)
Accrued Expense	49,262	32,119
Customer Deposits	42,123	24,530
Unearned Revenue	(211,399)	44,994
Income and Other Taxes Payable	(1,169)	8,122
Accrued Compensation	(25,110)	—
Accrued Interest	40,926	23,647
Net Cash Flows Used in Operating Activities	(3,833,199)	(3,212,575)
Cash Flows from Investing Activities		
Purchases of Fixed Assets	(262,774)	(411,440)
Investments in Patents and Trademarks	(42,315)	(30,709)
Net Cash Used in Investing Activities	(305,089)	(442,149)
Cash Flows from Financing Activities		
Repayment of Long-Term Debt and Notes Payable	—	(8,479)
Net Cash Flows Used by Financing Activities	—	(8,479)
Net Decrease in Cash and Cash Equivalents	(4,138,288)	(3,663,203)
Cash and Cash Equivalents — Beginning of Period	14,533,944	11,877,058
Cash and Cash Equivalents — End of Period	$ 10,395,656	$ 8,213,855
Supplemental Disclosures		
Interest Paid in Cash	$ 10,690	$ 7,431
Conversion of Long-Term Debt and Accrued Interest	$ 1,197,341	$ 22,500
Receivable from Stock Option Exercise	$ 14,820	$ —

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

VUZIX CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of Vuzix Corporation and Subsidiaries (“the Company") have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Regulation S-X of the Securities and Exchange Commission. Accordingly, the unaudited Condensed Consolidated Financial Statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The condensed consolidated balance sheet as of December 31, 2016 was derived from the audited Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K (the “Annual Report”).

The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements of the Company as of December 31, 2016, as reported in the Company’s Annual Report.

The results of the Company’s operations for any interim period are not necessarily indicative of the results of the Company’s operations for any other interim period or for a full fiscal year.

In the first quarter of 2017, Toshiba Japan represented 20% of revenues as compared to 0% in the same 2016 period. As of March 31, 2017 and 2016, Toshiba Japan accounted for 75% and 0% of accounts receivables, respectively.

The accompanying Condensed Consolidated Financial Statements have been prepared assuming that we will continue as a going concern. This basis of accounting contemplates the recovery of our assets and the satisfaction of liabilities in the normal course of business. These Condensed Consolidated Financial Statements do not include any adjustments to the specific amounts and classifications of assets and liabilities, which might be necessary should we be unable to continue as a going concern. The Company incurred a net loss for the first three months of 2017 of $4,181,812. The Company has incurred a net loss consistently over the last 2 years. The Company incurred annual net losses of $19,250,082 in 2016 and $13,427,478 in 2015, and has an accumulated deficit of $81,020,762 as of March 31, 2017.

The Company’s cash requirements are primarily for funding operating losses, research, capital expenditures and working capital. Historically, the Company has met these cash needs by borrowings under notes, sales of convertible debt, and the sales of equity. In 2016, we received total net proceeds from public equity offerings of $19,238,015, after underwriting discounts and commissions and other offering expenses payable by Vuzix.

Our cash requirements related to funding operating losses depend on numerous factors, including new product development activities, our ability to commercialize our products, our products’ timely market acceptance, selling prices and gross margins, and other factors. In order for us to achieve positive cash flow from operations, our product sales will need to significantly increase.

The Company’s management intends to take actions necessary to continue as a going concern, as discussed herein. The Company will need to grow its business significantly to become profitable and self-sustaining on a cash flow basis. Management’s plans concerning these matters and managing our liquidity includes among other things:

- the commencement of full volume manufacturing of the new M300 Smart Glasses this spring, along with expected margin improvements from higher production volumes and assembly off shore;
- the recent award of a Smart Glasses development program with Toshiba, which we expect to be completed by September 2017 and represents a further $905,000 in revenues during the next two fiscal quarters.
- tightly control operating costs and reduce spending growth rates wherever possible;

- delay or curtail discretionary and non-essential capital expenditures not related to near-term new products;
- reduce the rate of research and development spending on new technologies, particularly the use of costly external contractors
- delay some planned new products based on new technology; and
- the Company has $547,990 in convertible senior secured notes payable, that are convertible at $2.25 per share, which are due on June 3, 2017. We expect that the remaining holders of these notes, whom are also current stockholders, will convert all their notes and related accrued interest.

However, if these actions are not successful within a reasonable time period, we will have to raise additional capital to maintain operations and/or materially reduce our operating and new product development costs.

If the Company raises additional funds, the ownership interest of existing stockholders may be diluted. The amount of such dilution could increase due to the issuance of new warrants or securities with other dilutive characteristics, such as full ratchet anti-dilution clauses or price resets.

Based upon our current amount of cash on hand, management's historical ability to raise capital, and our ability to manage our cost structure and adjust operating plans if and as required, we have concluded that substantial doubt of our ability to continue as a going concern has been alleviated.

Note 2 – Loss Per Share

Basic loss per share is computed by dividing the loss attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution from the assumed exercise of stock options and warrants, and the conversion of any convertible debt and convertible preferred shares. During periods of net loss, all common stock equivalents are excluded from the diluted EPS calculation because they are antidilutive. Since the Company reported a net loss for the three months ended March 31, 2017 and 2016, the calculation for basic and diluted earnings per share is considered to be the same, as the impact of potential common shares is anti-dilutive. As of March 31, 2017 and December 31, 2016, there were 6,446,784 and 7,227,738 respectively, common stock share equivalents potentially issuable under convertible debt agreements, conversion of preferred shares, options, and warrants that could potentially dilute basic earnings per share in the future.

Note 3 — Inventories, Net

Inventories are stated at the lower of cost and net realizable value and consisted of the following:

	March 31, 2017	December 31, 2016
Purchased Parts and Components	$ 1,998,111	$ 1,990,026
Work in Process	364,329	454,120
Finished Goods	938,520	831,069
Less: Reserve for Obsolescence	(580,128)	(623,997)
Net	$ 2,720,832	$ 2,651,218

Note 4 — Accrued Expenses

Accrued expenses consisted of the following:

	March 31, 2017	December 31, 2016
Accrued Wages and Related Costs	$ 136,988	$ 119,472
Accrued Compensation	623,609	648,720
Accrued Professional Services	157,885	137,099
Accrued Warranty Obligations	54,592	41,132
Accrued Interest	262,899	375,560
Other Accrued Expenses	10,000	10,000
Total	$ 1,245,973	$ 1,331,983

Included in the above accrued compensation are amounts owed to officers of the Company for services rendered that remain outstanding from prior to 2015, as well as 2016 declared bonuses. The pre-2015 amounts are not subject to a fixed repayment schedule and they bear interest at a rate of 8% per year, compounding monthly. Those amounts were $333,609 as of March 31, 2017 and $358,720 as of December 31, 2016. The related interest amounts included in Accrued Interest was $156,914 and $141,645 respectively at March 31, 2017 and December 31, 2016. The 2016 bonuses included in Accrued Compensation were $290,000 as of March 31, 2017 and December 31, 2016.

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 certain European countries where it is two years for some of our products. 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 the quarter ended March 31, 2017 and December 31, 2016 were as follows:

Accrued Warranty Obligations at December 31, 2016	$ 41,132
Reductions for Settling Warranties	(24,188)
Warranties Issued During Period	37,648
Accrued Warranty Obligations at March 31, 2017	$ 54,592

Note 5 – Derivative Liability and Fair Value Measurements

The Company recognized a derivative liability for the warrants to purchase shares of its common stock issued in connection with the equity offering and related debt conversions on August 5, 2013. These warrants have a cashless exercise provision and an exercise price that is subject to adjustment in the event of subsequent equity sales at a lower purchase price (subject to certain exceptions) along with full-ratchet anti-dilution provisions. In accordance with FASB ASC 815-10-25, we measured the derivative liability using a Monte Carlo Options Lattice pricing model at their issuance date and subsequently remeasured the liability on each reporting date.

Accordingly, at the end of each quarterly reporting date, the derivative fair market value is remeasured and adjusted to current market value. As at March 31, 2017 and December 31, 2016 a total of 38,100 warrants were outstanding that contained a full-ratchet anti-dilution provision. In connection with the closing of our sale of shares of Series A Preferred Stock on January 2, 2015 (the “Series A Private Placement”), holders of approximately 86% of outstanding warrants issued by the Company in its public offering and in connection with the conversion by certain holders of the Company’s outstanding debt in connection with the Company’s public offering (collectively, the “Public Offering Warrants”) agreed to irrevocably waive their rights to anti-dilution protection under Section 2(b) of the Public Offering Warrants in the event the Company issues additional securities at a per share price lower than the exercise price of the Public Offering Warrants (the “Public Offering Warrant Waiver”). As a result the related derivative liability was reversed to Nil and reclassified into stockholders equity under Additional Paid-In Capital.

The Company recognized a derivative liability during the year ended December 31, 2014 for the $3,000,000 of senior convertible notes with a conversion price that is subject to adjustment in the event of subsequent equity sales at a lower purchase price (subject to certain exceptions). In accordance with FASB ASC 815-10-25, we measured the derivative liability of this embedded conversion option using a Monte Carlo Options Lattice pricing model at the June 3, 2014 issuance date as $1,938,988. The value of the derivative liability at issuance was recorded as a discount against the notes in the Long-Term Liabilities section of the balance sheet. Accordingly, at the end of each quarterly reporting date the derivative fair market value is remeasured and adjusted to current market value.

In connection with the closing of the Series A Private Placement on January 2, 2015, each of the holders of notes issued by the Company on June 3, 2014 (the “June 2014 Notes”) agreed to irrevocably waive their rights to anti-dilution protection under Section 5(b) of the June 2014 Notes in the event the Company issues additional securities at a per share price lower than the conversion price of the June 2014 Notes (the “June 2014 Note Waiver”). As a result this derivative liability was reversed to Nil and reclassified into stockholders equity under Additional Paid-In Capital.

The Company has adopted FASB ASC Topic 820 for financial instruments measured at fair value on a recurring basis. FASB ASC Topic 820 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expands disclosures about fair value measurements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC Topic 820 establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;

- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and

- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The carrying amount of cash, accounts receivable, accounts payable, and accrued expenses approximates their fair value due to their short maturity. The carrying amount of notes payable approximates fair value because stated or implied interest rates approximate current interest rates that are available for debt with similar terms.

We measure certain financial instruments at fair value on a recurring basis. Assets and liabilities measured at fair value on a recurring basis are as follows at March 31, 2017:

	Total	Level 1	Level 2	Level 3
Warrant Liability	$ 150,571	$ —	$ —	$ 150,571
Total liabilities measured at fair value (Long-Term)	$ 150,571	$ —	$ —	$ 150,571

We measure certain financial instruments at fair value on a recurring basis. Assets and liabilities measured at fair value on a recurring basis are as follows at December 31, 2016:

	Total	Level 1	Level 2	Level 3
Warrant Liability	$ 173,131	$ —	$ —	$ 173,131
Total liabilities measured at fair value (Long-Term)	$ 173,131	$ —	$ —	$ 173,131

Fair value – December 31, 2016	$ 173,131
Change in fair value for the period of warrant derivative liability	(22,560)
Fair value – March 31, 2017	$ 150,571

The Monte Carlo Options Lattice pricing model was used to estimate the fair value of the warrants outstanding:

	March 31, 2017	December 31, 2016
Assumptions for Pricing Model:		
Expected term in years	1.35	1.22
Volatility range for years	115%	100%
Risk-free interest rate	1.03%	1.47%
Expected annual dividends	None	None
Value of warrants outstanding:		
Fair value of warrants	$ 150,571	$ 173,131

Note 6 — Long-Term Debt

Long-term debt consisted of the following:

	March 31, 2017	December 31, 2016
Convertible, Senior Secured Notes payable. The principal is due June 3, 2017 and no payments are required prior to maturity. The notes carry a 5% interest rate, payable upon the notes' maturity. Both the principal plus accrued interest is convertible into shares of the Company's common stock at $2.25, subject to normal adjustments. The notes are secured by a first security position in all the assets of the Company.	547,990	1,591,740
Convertible, Senior Secured Notes Debt Issuance Costs of $139,340, net of accumulated amortization. The estimated aggregate annual amortization expense is approximately $8,000 in 2017.	(8,048)	(19,500)
Unamortized debt discount related to derivative liability associated with above notes' conversion price that is subject to adjustment in the event of subsequent equity sales at a lower purchase price (subject to certain exceptions). Upon issuance on June 3, 2014 the discount was $1,938,988.	(21,568)	(155,760)
	$ 518,374	$ 1,416,480
Less: Amount Due Within One Year	(518,374)	(1,416,480)
Amount Due After One Year	$ —	$ —

The calendar year aggregate maturities for all borrowings exclusive of discounts as of March 31, 2017 are as follows:

Total Aggregate Maturity For Period	Amounts
2017 (3 months)	547,990
Total Unamortized Debt Discounts and Deferred Costs	(29,616)
Total Borrowings as of March 31, 2017	$ 518,374

Of the Convertible Senior Secured Notes, $1,043,750 were converted into 463,889 shares of common stock during the three months ended March 31, 2017 and $153,591 of accrued interest on these Notes were converted into 68,263 shares of common stock during the three months ended March 31, 2017.

Note 7 — Income Taxes

The Company's effective income tax rate is a combination of federal, state and foreign tax rates and differs from the U.S. statutory rate due to taxes on foreign income, permanent differences including tax-exempt interest, and the resolution of tax uncertainties, offset by a valuation allowance against U.S. deferred income tax assets.

Note 8 — Capital Stock

Preferred stock

The Company may issue shares of undesignated preferred stock in one or more series. The Board of Directors is authorized to establish and designate the different series and to fix and determine their voting powers and other special rights and qualifications. A total of 5,000,000 shares of preferred stock are authorized as of March 31, 2017 and December 31, 2016, 49,626 of which are designated as Series A Preferred Stock. There were 49,626 shares of Series A Preferred Stock issued and outstanding on March 31, 2017 and December 31, 2016.

On January 2, 2015 the Company closed a sale of Series A Preferred Stock to Intel Corporation (the "Series A Purchaser"), pursuant to which we issued and sold an aggregate of 49,626 shares of the Company's Series A Preferred Stock, at a purchase price of $500 per share, for an aggregate purchase price of $24,813,000. Each share of Series A Preferred Stock is convertible, at the option of the Series A holder, into 100 shares of the Company's common stock (determined by dividing the Series A Original Issue Price of $500 by the Series A Conversion Price. The Series A Conversion Price is $5.00, subject to adjustment in the event of stock splits, dividends or other combinations.

Each share of Series A Preferred Stock is entitled to receive dividends at a rate of 6% per year, compounded quarterly and payable in cash or in kind, at the Company's sole discretion. As of March 31, 2017, total accrued and unpaid preferred dividends were $3,547,594. As of December 31, 2016, total accrued and unpaid preferred dividends were $3,134,129. There were no declared preferred dividends owed as of March 31, 2017 or December 31, 2016.

The Series A Purchaser has the right, but not the obligation, to participate in any proposed issuance by the Company of its securities, subject to certain exceptions and in such amount as is sufficient to maintain the Series A Purchaser's ownership percentage in the Company, calculated immediately prior to such applicable financing, at a purchase price equal to the per share price of the Company's securities in such applicable financing.

In connection with the Series A Private Placement, the Company entered into an investor's rights agreement with the Series A Purchaser, pursuant to which the Company agreed to file a "resale" registration statement with the Securities and Exchange Commission (the "SEC") covering all shares of common stock issuable upon conversion of the Series A Preferred Stock. The Company's registration statement covering these shares was declared effective by the SEC on February 17, 2015.

Common Stock

The Company's authorized common stock consists of 100,000,000 shares, par value of $0.001 as of March 31, 2017 and December 31, 2016. There were 20,293,173 and 19,569,247 shares of common stock issued and outstanding as of March 31, 2017 and December 31, 2016, respectively.

Note 9 — Stock Warrants

A summary of the various changes in warrants during the three month period ended March 31, 2017 is as follows.

	Number of Shares
Warrants Outstanding at December 31, 2016	401,859
Exercised During the Period	(250,009)
Issued During the Period	—
Expired During the Period	—
Warrants Outstanding, March 31, 2017	151,850

The outstanding warrants as of March 31, 2017 expire from November 3, 2017 to August 5, 2018. The weighted average remaining term of the warrants is 1.2 years. The weighted average exercise price is $2.66 per share.

Note 10 — Stock Option Plans

A summary of stock option activity for the three months ended March 31, 2017 is as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2016	1,084,298	$ 4.76
Granted	—	—
Exercised	(35,000)	2.40
Expired or Forfeited	(7,619)	17.50
Outstanding at March 31, 2017	1,041,679	$ 4.75

The weighted average remaining contractual term for all options as of March 31, 2017 and December 31, 2016 was 7.4 years and 7.6 years respectively.

As of March 31, 2017, there were 624,032 options that were fully vested and exercisable at a weighted average exercise price of $4.75 per share. The weighted average remaining contractual term on the vested options is 6.9 years.

As of March 31, 2017, there were 417,647 unvested options exercisable at a weighted average exercise price of $4.73 per share. The weighted average remaining contractual term on the unvested options is 8.2 years.

No cash was received from option exercises for the three months ended March 31, 2017.

The weighted average fair value of option grants was calculated using the Black-Scholes-Merton option pricing method. At March 31, 2017, the Company had approximately $1,870,106 of unrecognized stock compensation expense, which will be recognized over a weighted average period of approximately 2.4 years.

Note 11 — Litigation

We are not currently involved in any pending legal proceeding or litigation.

Note 12 — Contractual Obligations

The Company has signed several lease agreements, with the largest being for its new office and manufacturing space under an operating lease that commenced October 3, 2015, that expires on October 3, 2020. The Company also leases small office spaces in England under a two-year lease and under a one year lease arrangement in Japan.

Future minimum payments required under operating lease obligations as of March 31, 2017 are as follows:

	Total Minimum Lease Payments
2017 (9 months remaining)	276,503
2018	339,910
2019	335,248
2020	307,311
2021	-
Total	$ 1,258,972

Under 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.

Rent expense for the three months ended March 31, 2017 and 2016 totaled $110,369 and $123,814, respectively.

Note 13 — Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09 (ASU 2014-09) *Revenue from Contracts with Customers*, an updated standard on revenue recognition. ASU 2014-09 provides enhancements to the quality and consistency of how revenue is reported while also improving comparability in the financial statements of companies reporting using International Financial Reporting Standards and GAAP. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. ASU 2014-09 will be effective in the first quarter of fiscal 2018 and may be applied on a full retrospective or modified retrospective approach. The Company is currently evaluating the impact of implementation of this standard on the consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update ASU 2016-02 *Leases* (Topic 842). Current US generally accepted accounting principles (GAAP) requires lessees and lessors to classify leases as either capital leases or operating leases. Lessees recognize assets and liabilities for capital leases but not for operating leases. ASU 2016-02 requires lessees to recognize assets and liabilities for all leases (with an exception for short-term leases). The new FASB guidance will be effective for fiscal years beginning after December 15, 2018, and interim periods thereafter. The Company is currently evaluating the impact the adoption of this standard will have on the consolidated financial statements.

In April 2016, the FASB issued ASU No. 2016-10 *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* to clarify two aspects of Topic 606: (i) identifying performance obligations and (ii) the licensing implementation guidance, while retaining the related principles for those areas. The Company is evaluating the impact, if any, the adoption of this standard will have on the consolidated financial statements and related disclosures.

In May 2016, the FASB issued ASU No. 2016-12 *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients* in an effort to reduce (i) the potential for diversity at initial application and (ii) the cost and complexity of applying Topic 606 both at transition and on an ongoing basis. The Company is evaluating the impact, if any, the adoption of this standard will have on the consolidated financial statements and related disclosures.

Recently Adopted Accounting Pronouncements

In March 2016, the FASB issued ASU No. 2016-09 *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* which amends the current stock compensation guidance. The amendments simplify the accounting for the taxes related to stock based compensation, including adjustments to how excess tax benefits and a company's payments for tax withholdings should be classified. Under this new guidance, entities must elect whether to account for forfeitures of share-based payments by (1) recognizing forfeitures of awards as they occur or (2) apply an estimated forfeiture rate, as is currently required. The standard is effective for fiscal periods beginning after December 15, 2016. We have adopted this standard for the quarter ended March 31, 2017 and have elected to account for forfeitures as they occur. The adoption of this standard did not have a material impact on our consolidated financial statements.

In November 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-17, Income Taxes (Topic 740): *Balance Sheet Classification of Deferred Taxes*. ASU 2015-17 simplifies the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The standard is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods and may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. We have adopted this standard for the quarter ended March 31, 2017 on a prospective basis; therefore, all deferred tax assets and liabilities have been classified as noncurrent in the accompanying Consolidated Balance Sheets. Noncurrent deferred tax assets and noncurrent deferred tax liabilities are included in other assets and other long-term liabilities, respectively, in the accompanying Consolidated Balance Sheets. As of March 31, 2017, the Company had a full valuation allowance against all net deferred tax assets, as such the adoption of this standard did not have a material impact on our consolidated financial statements.

Note 14 — Subsequent Events

Recent Option Exercises:

Since March 31, 2017, the Company has issued 211 shares of common stock upon the cashless exercise of 375 stock options.

Recent Note Conversions:

Since March 31 2017, $225,000 in long-term convertible notes have been converted to 100,000 shares of common stock, and $34,972 in accrued interest have been converted to 15,543 shares of common stock.

Recent Stock Awards:

Since March 31, 2017, the Company has awarded 100,000 common shares, subject to vesting to its new COO and 16,543 common shares were awarded an IR firm as part of their annual retainer for services covering April 2017 to March 2018.

Item 2. 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 financial statements and related notes appearing elsewhere in this quarterly report and in our annual report on Form 10-K for the year ended December 31, 2016.

As used in this report, unless otherwise indicated, the terms "Company," "Vuzix" "management," "we," "our," and "us" refer to Vuzix Corporation and its subsidiary.

Critical Accounting Policies and Significant Developments and Estimates

The discussion and analysis of our financial condition and results of operations are based on our unaudited condensed consolidated financial statements and related notes appearing elsewhere in this quarterly report. The preparation of these statements in conformity with generally accepted accounting principles requires the appropriate application of certain accounting policies, many of which require us to make estimates and assumptions about future events and their impact on amounts reported in our financial statements, including the statement of operations, balance sheet, cash flow and related notes. We continually evaluate our estimates used in the preparation of our financial statements, including those related to revenue recognition, bad debts, inventories, warranty reserves, product warranty, carrying value of long-lived assets, fair value measurement of financial instruments and embedded derivatives, valuation of stock compensation awards, and income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not apparent from other sources. Since 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. We periodically reevaluate these accounting policies and estimates, and make adjustments when facts and circumstances dictate a change. Historically, we have found our application of accounting policies to be appropriate, and actual results have not differed materially from those determined using necessary estimates.

Management believes certain factors and trends 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;
- software development costs
- revenue recognition;
- product warranty;
- fair value measurement of financial instruments and embedded derivatives;
- stock-based compensation; and
- income taxes.

Our accounting policies are more fully described in the notes to our condensed consolidated financial statements included in this quarterly report and in our annual report on Form 10-K for the year ended December 31, 2016. There have been no significant changes in our accounting policies for the three month period ended March 31, 2017.

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.

Business Matters

We are engaged in the design, manufacture, marketing and sale of wearable display devices also referred to as head mounted displays (or HMDs), in the form of Augmented Reality (AR) glasses, Virtual Reality (VR) glasses and Smart Glasses. Our wearable display products are referred to as, Video Eyewear, head mounted wearable displays, video glasses, personal viewers, near-eye virtual displays, and near-eye displays or NEDs. Our wearable display products provide virtual large high-resolution screens, fit in a user's pocket or purse and can be viewed practically anywhere, anytime. They can also be used for VR and AR applications, in which the wearer is either immersed in a computer generated world or has their real world view augmented with computer generated information or graphics. We produce and sell two main types of wearable display products: Smart Glasses for a variety of enterprise and commercial users and applications, including AR; and Video Viewing glasses (for on-the-go users as mobile displays for entertainment, gaming as well as support for stepping into virtual worlds, simulations & VR gaming). Our products are available with varying features, including with and without application running computer processors, and are offered as either monocular or binocular display systems.

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09 (ASU 2014-09) *Revenue from Contracts with Customers*, an updated standard on revenue recognition. ASU 2014-09 provides enhancements to the quality and consistency of how revenue is reported while also improving comparability in the financial statements of companies reporting using International Financial Reporting Standards and GAAP. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. ASU 2014-09 will be effective in the first quarter of fiscal 2018 and may be applied on a full retrospective or modified retrospective approach. The Company is currently evaluating the impact of implementation of this standard on the consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update ASU 2016-02 *Leases* (Topic 842). Current US generally accepted accounting principles (GAAP) requires lessees and lessors to classify leases as either capital leases or operating leases. Lessees recognize assets and liabilities for capital leases but not for operating leases. ASU 2016-02 requires lessees to recognize assets and liabilities for all leases (with an exception for short-term leases). The new FASB guidance will be effective for fiscal years beginning after December 15, 2018, and interim periods thereafter. The Company is currently evaluating the impact the adoption of this standard will have on the consolidated financial statements.

In April 2016, the FASB issued ASU No. 2016-10 *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* to clarify two aspects of Topic 606: (i) identifying performance obligations and (ii) the licensing implementation guidance, while retaining the related principles for those areas. The Company is evaluating the impact, if any, the adoption of this standard will have on the consolidated financial statements and related disclosures.

In May 2016, the FASB issued ASU No. 2016-12 *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients* in an effort to reduce (i) the potential for diversity at initial application and (ii) the cost and complexity of applying Topic 606 both at transition and on an ongoing basis. The Company is evaluating the impact, if any, the adoption of this standard will have on the consolidated financial statements and related disclosures.

Recently Adopted Accounting Pronouncements

In March 2016, the FASB issued ASU No. 2016-09 *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* which amends the current stock compensation guidance. The amendments simplify the accounting for the taxes related to stock based compensation, including adjustments to how excess tax benefits and a company's payments for tax withholdings should be classified. Under this new guidance, entities must elect whether to account for forfeitures of share-based payments by (1) recognizing forfeitures of awards as they occur or (2) apply an estimated forfeiture rate, as is currently required. The standard is effective for fiscal periods beginning after December 15, 2016. We have adopted this standard for the quarter ended March 31, 2017 and have elected to account for forfeitures as they occur. The adoption of this standard did not have a material impact on our consolidated financial statements.

In November 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-17, Income Taxes (Topic 740): *Balance Sheet Classification of Deferred Taxes*. ASU 2015-17 simplifies the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The standard is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods and may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. We have adopted this standard for the quarter ended March 31, 2017 on a prospective basis; therefore, all deferred tax assets and liabilities have been classified as noncurrent in the accompanying Consolidated Balance Sheets. Noncurrent deferred tax assets and noncurrent deferred tax liabilities are included in other assets and other long-term liabilities, respectively, in the accompanying Consolidated Balance Sheets. As of March 31, 2017, the Company had a full valuation allowance against all net deferred tax assets, as such the adoption of this standard did not have a material impact on our consolidated financial statements.

There are no other recent accounting pronouncements that we expect to have a material impact on the consolidated financial statements.

Results of Operations

Comparison of Three Months Ended March 31, 2017 and March 31, 2016

The following table compares the Company's consolidated statements of operations data for the three months ended March 31, 2017 and 2016.

	3 Months Ended March 31,			
	2017	**2016**	**Dollar Change**	**% Increase (Decrease)**
Sales of Products	$ 959,383	$ 363,839	$ 595,544	164%
Sales of Engineering Services	251,280	—	251,280	-
Total Sales	1,210,663	363,839	846,824	233%
Cost of Sales — Products	953,903	602,977	350,926	58%
Cost of Sales — Engineering Services	108,000	—	108,000	-
Total Cost of Sales	1,061,903	602,977	458,926	76%
Gross Profit (Loss)	148,760	(239,138)	387,898	162%
Gross Profit (Loss) %	12%	(66)%		
Operating Expenses:				
Research and Development	1,668,956	1,274,713	394,243	31%
Selling and Marketing	1,030,999	1,126,499	(95,500)	(8)%
General and Administrative	1,235,183	886,315	348,868	39%
Depreciation and Amortization	239,830	169,188	70,642	42%
Loss from Operations	(4,026,208)	(3,695,853)	(330,355)	9%
Other Income (Expense)				
Investment Income	17,900	9,455	8,455	89%
Other Taxes	(10,550)	(20,721)	10,171	(49)%
Foreign Exchange Gain (Loss)	1,097	(3,949)	5,046	127%
Gain (Loss) on Derivative Valuation	22,560	101,666	(79,106)	(78)%
Amortization of Senior Term Debt Discount	(134,192)	(121,206)	12,986	11%
Amortization of Deferred Financing Costs	(11,453)	(11,581)	128	(1)%
Interest Expense, net of Interest Income	(40,966)	(33,550)	(7,416)	22%
Total Other Income (Expense)	(155,604)	(79,886)	(75,718)	95%
Loss Before Provision for Income Taxes	(4,181,812)	(3,775,739)	(406,073)	11%
Provision for Income Taxes	—	—	—	—
Net Loss	$ (4,181,812)	$ (3,775,739)	$ (406,073)	11%

Sales. There was an overall increase in product sales for the quarter ended March 31, 2017 over the same period in 2016 of $595,544 or 164%. The following table reflects the major components of our sales:

	Quarter Ended March 31, 2017	% of Sales	Quarter Ended March 31, 2016	% of Sales	Dollar Change	% Increase (Decrease)
Sales of Smart Glasses	$ 901,448	74%	$ 312,164	86%	$ 589,284	189%
Sales of Video Eyewear	48,319	4%	41,980	12%	6,339	15%
Sales Freight out	9,616	1%	9,695	2%	(79)	(1)%
Sales of Engineering Services	251,280	21%	-	-	251,280	-
Total Sales	$ 1,210,663	100%	$ 363,839	100%	$ 846,824	233%

The increase in Smart Glasses was primarily the result of the volume production release and commencement of sales of the M300 Smart Glasses. M300 sales contributed to the majority of increased revenues in the first quarter of 2017 as compared to no sales in the corresponding first quarter of 2016. As March 31, 2017 we were still receiving orders for M300 migration packages and preorders, which were affected by mass production start-up challenges in the quarter, as we were not able to fulfill approximately 45% of our original M300 migration pack orders. As a result these migration pack sales and M300 pre-orders were recorded as deferred revenues or customer deposits and they will not be recognized as revenue until their shipment. Sales of our original M100 Smart Glasses increased in the first quarter of 2017 over the 2016 quarterly period, reflecting its continued sales strength in light of the new M300. Our iWear Video Headphones sales were up 15% for the first quarter of 2017 as compared to the same period in 2016. This overall revenue increase was achieved even after our drop in the retail price of the iWear to $299 from it 2016 price of $499. Sales of engineering services were $251,280 for the first quarter of 2017 versus no revenues from this category in the same 2016 period. The majority of this relates to work being performed for a specialized version of our smart glasses for Toshiba Japan.

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

Component of Cost of Sales	Quarter Ended March 31, 2017	As % Related Product Sales	Quarter Ended March 31, 2016	As % of Related Product Sales	Dollar Change
Product Cost of Sales	$ 486,828	51%	$ 283,316	78%	$ 203,513
Freight Costs	101,585	11%	67,013	18%	34,572
Manufacturing Overhead	225,038	24%	147,062	40%	77,976
Warranty Costs	37,648	4%	10,918	3%	26,729
Amortization of Software Costs	71,613	8%	71,613	20%	-
Software Royalties	31,191	3%	23,055	6%	8,136
Total Cost of Sales – Products	$ 953,903	99%	$ 602,977	166%	$ 350,925
Gross Profit (Loss) – Product Sales	$ 5,480	1%	$ (239,138)	(66)%	$ 244,619

Excluding engineering services, we achieved a small gross profit of $5,480 or 1% of product revenues as compared to a loss of $239,138 or a negative 66% for the same first quarter period in 2016. The overall improvement was the direct result of the absorption of our many of our relatively fixed manufacturing overheads and amortization costs by the increased revenues, as compared to the 2016 period when sales revenues were significantly less. Partially offsetting this overall improvement was a reduction in actual product gross margins realized due the fact that iWear Video Headphones are now effectively being sold at their net realizable value, pursuant to our write-down at end of fiscal 2016. Additionally the gross margins being realized on the first volume sales shipments of our M300 Smart Glasses was approximately 30% less than expected due to production inefficiencies and yields. Manufacturing overhead costs rose primarily due to increased salaries and production labor costs of $69,066, and $8,908 increased travel costs related to our Asian factory visit. Freight costs of $101,585 were substantially higher for the 2017 period as compared to $67,013 in 2016 due the use of express freight services related to the M300 Smart Glasses production start-up and deliveries to customers.

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

	Quarter Ended March 31, 2017	% of Sales	Quarter Ended March 31, 2016	% of Sales	Dollar Change	% Increase (Decrease)
Research and Development	$ 1,668,956	138%	$ 1,274,713	350%	$ 394,243	31%

Comparing the research and development costs for the first quarter ended March 31, 2017 versus the same period in 2016, there was an increase in 2017 salary, benefits and stock compensation expenses of $101,125, primarily the result of additional R&D staff versus the same period in 2016; an increase in project development and research costs of $230,761 primarily related to transitioning the M300 Smart Glasses into volume production with our outside contractor which assisted in the development work; a decrease of $10,786 in rent and utility costs from the 2016 period where we still had waveguide R&D equipment at our old facility which was not consolidated into our new corporate facilities until September 2016; and a decrease of $32,081 in travel costs related to our outside production contractor and development contractors.

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

	Quarter Ended March 31, 2017	% of Sales	Quarter Ended March 31, 2016	% of Sales	Dollar Change	% Increase (Decrease)
Selling and Marketing	$ 1,030,999	85%	$ 1,126,499	310%	$ (95,500)	(8)%

These costs decreased overall due to the following factors: a reduction of $100,850 in website development costs; a reduction of $10,696 in travel costs; a reduction of $134,434 in marketing firm services; partially offset by a increase of $68,849 in trade show costs; a $53,183 increase in salary, commissions, benefits and stock compensation expenses related to new staff additions Europe as compared to the same period in 2016 and an increase of $18,417 for computer software subscriptions.

General and Administrative. General and administrative costs include professional fees, investor relations (IR) costs including shares and warrants issued for IR services, salaries and related stock compensation, travel costs, office and rental costs.

	Quarter Ended March 31, 2017	% of Sales	Quarter Ended March 31, 2016	% of Sales	Dollar Change	% Increase (Decrease)
General and Administrative	$ 1,235,183	102%	$ 886,315	244%	$ 348,868	39%

General and administrative costs rose for the first quarter of 2017 versus 2016 primarily because of: a $210,700 increase in audit fees and related consulting fees, with the majority of the change being for Sarbanes-Oxley Section 404 consultants retained to assist management in designing and implementing improvements in our financial reporting controls; increased salary costs of $104,862 due to the hiring of new accounting and internal IR personnel; increased compensation expense related to stock awards of $47,625 to our external directors as part of their annual compensation; and a $11,816 increase in travel costs.

Depreciation and Amortization. Depreciation and amortization expense for the three months ended March 31, 2017 was $239,830 as compared to $169,188 in the same period in 2016, an increase of $70,642. The increase in depreciation and amortization expense is due to new investments in depreciable assets made during 2016 and the first quarter of 2017, including the finalization of the M300 tooling and the commencement of depreciation costs against those investments.

Other Income (Expense). Total other expense was $155,604 for the three months ended March 31, 2017 compared to an expense of $79,886 in the same period in 2016, an increase of $75,718. The overall increase in these other expenses was primarily the result of a reduced gain on the derivative valuation for the three months ended March 31, 2017 of $22,560 as compared to a gain of $101,666 in the same period in 2016, a decrease of $79,106.

Provision for Income Taxes. There was not a provisions for income taxes in the three month period ending March 31, 2017 or 2016.

Liquidity and Capital Resources

As of March 31, 2017, we had cash and cash equivalents of $10,395,656, a decrease of $4,138,288 from $14,533,944 as of December 31, 2016.

At March 31, 2017 we had current assets of $14,200,064 compared to current liabilities of $3,185,074 which resulted in a positive working capital position of $11,014,990. At December 31, 2016, we had a working capital position of $13,808,094. Our current liabilities are comprised principally of accounts payable and accrued expenses.

Operating Activities. We used $3,833,199 of cash for operating activities for the three months ending March 31, 2017 and $3,212,575 in the same period in 2016. The major operating items for the quarter ended March 31, 2017 resulted from a $3,537,210 loss from operations after non-cash adjustments and a $217,261 increase in accounts receivable, a $246,687 decrease in prepaid expenses, and a $211,399 reduction in unearned revenue. The major operating items for 2016 resulted from a $3,291,077 loss from operations after non-cash adjustments and $169,204 decrease in prepaid expenses, a $269,233 decrease in accounts receivable and a $469,658 reduction in accounts payable.

Investing Activities. Cash used in investing activities was $305,089 for the three months ended March 31, 2017 as compared to $442,149 in the same period in 2016. During the first quarter of 2017, $262,774 was used primarily for the purchase of manufacturing equipment and mold tooling computer equipment.as compared to spending of $411,440 for the same period in 2016.The costs of registering our intellectual property rights, included in the investing activities totals described above, were $42,315 in the three month period ending March 31, 2017 and $30,709 in the same period in 2016.

Financing Activities. We used zero cash for financing activities for the three months ending March 31, 2017 as compared to $8,479 in the same period in 2016.

Capital Resources. As of March 31, 2017, we had a cash balance of $10,395,656.

We incurred a net loss for the first three months of 2017 of $4,181,812. The Company incurred annual net losses of $19,250,082 in 2016 and $13,427,478 in 2015, and has an accumulated deficit of $81,020,762 as of March 31, 2017. The Company needs to grow its business significantly to become profitable and self-sustaining on a cash flow basis or it will be required to raise new capital. The Company's management intends to take actions necessary to continue as a going concern, and accordingly our condensed consolidated financial statements included in this report have been prepared assuming that we will continue as a going concern. This basis of accounting contemplates the recovery of our assets and the satisfaction of liabilities in the normal course of business. These condensed consolidated financial statements do not include any adjustments to the specific amounts and classifications of assets and liabilities, which might be necessary should we be unable to continue as a going concern.

The Company's cash requirements related to funding operating losses 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. In order for us to achieve positive cash flow from operations, our product sales will need to increase significantly. The Company late in the first quarter of 2017 began volume production and commercial shipments of its new M300 Smart Glasses, expanding its product offerings from the prior 2016 period, when the M300 was announced but not ready for sale. However, if this product and others in development are not successful within a reasonable time period after their commercial releases, we will have to raise additional capital to maintain operations and/or materially reduce our operating and new product development costs.

Historically, the Company has met its cash needs by the sales of equity and convertible debt, and borrowings under notes. If the Company raises additional funds by these methods, the ownership interest of existing shareholders may be diluted. The amount of such dilution could increase due to the issuance of new warrants or securities with other dilutive characteristics, such as full ratchet anti-dilution clauses or price resets. The Company had $547,990 in convertible senior secured notes payable as of March 31, 2017, that are convertible to common stock at $2.25 per share, which is due on June 3, 2017. Since March 31, 2017, over half of these notes have been converted. We expect that the remaining holders of these notes, whom are also current stockholders, will convert all their notes and related accrued interest.

We believe our existing cash and cash equivalent balances and cash flow from future operations will, if management's operating plan is met, be sufficient to meet our working capital and capital expenditure needs for the foreseeable future even with continued operating losses for the next two quarters. There can, however be no assurance that we will be able to meet our operating plan for the next 12 months and that we will be able to generate positive cash flows from operations in the future thereafter.

There can be no assurance that we will be able to raise capital in the future or that if we raise additional capital it will be sufficient to execute our business plan. To the extent that we are unable to raise sufficient additional capital, we will be required to substantially modify our business plan and our plans for operations, which could have a material adverse effect on us and our financial condition.

Forward Looking Statements

This quarterly report includes forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include statements concerning:

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

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.

All such forward-looking statements are subject to certain risks and uncertainties and should be evaluated in light of important risk factors. These risk factors include, but are not limited to, those that are described in "Risk Factors" under Item 1A and elsewhere in our 2016 annual report on Form 10-K and other filings we make with the Securities and Exchange Commission and the following: business and economic conditions, rapid technological changes accompanied by frequent new product introductions, competitive pressures, dependence on key customers, inability to gauge order flows from customers, fluctuations in quarterly and annual results, the reliance on a limited number of third party suppliers, limitations of our manufacturing capacity and arrangements, the protection of our proprietary technology, the effects of pending or threatened litigation, the dependence on key personnel, changes in critical accounting estimates, potential impairments related to investments, foreign regulations, liquidity issues, and potential material weaknesses in internal control over financial reporting. Further, during weak or uncertain economic periods, customers' may delay the placement of their orders. These factors often result in a substantial portion of our revenue being derived from orders placed within a quarter and shipped in the final month of the same quarter.

Any of these factors could cause our actual results to differ materially from our anticipated results. We caution readers to carefully consider such factors. Many of these factors are beyond our control. In addition, any forward-looking statements represent our estimates only as of the date they are made, and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update forward-looking statements at some point in the future, except as may be required under applicable securities laws, we specifically disclaim any obligation to do so, even if our estimates change.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We invest our excess cash in high-quality short-term corporate debt instruments, which bear lower levels of relative risk. We believe that the effect, if any, of reasonably possible near-term changes in interest rates on our financial position, results of operations, and cash flows should not be material to our cash flows or income. It is possible that interest rate movements would increase our unrealized gain or loss on interest rate securities. We are exposed to changes in foreign currency exchange rates primarily through transaction gains and losses as a result of non U.S. dollar denominated cash flows related to business activities in Japan and Europe. We do not currently hedge our foreign currency exchange rate risk. We estimate that any market risk associated with our international operations is unlikely to have a material adverse effect on our business, financial condition or results of operation.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management, with the participation of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), has performed an evaluation of our disclosure controls and procedures that are defined in Rule 13a-15 of the Exchange Act as of the end of the period covered by this report. This evaluation included consideration of the controls, processes, and procedures that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our management, including our CEO and CFO, concluded that, as of March 31, 2017, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

As reported in our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2016, included in "Item 9A. Controls and Procedures" of our Annual Report on Form 10-K for the year ended December 31, 2016, our internal control over financial reporting was considered ineffective as of that date as a result of certain material weaknesses. One of the material weaknesses that existed was over the financial reporting and close processes related to (i) ineffective procedures and controls over journal entries; and (ii) inadequate controls and procedures related to the timely preparation and review of account reconciliations.

In the fourth quarter of 2016, we implemented new controls to remediate the material weakness stated above, including (i) the installation of a monthly close checklist to ensure all procedures, including account reconciliations, are performed and appropriate reviews thereof are completed in a timely manner; (ii) an enhanced quarterly analytical review of financial performance; and (iii) an improved journal entry review process. These controls implemented in the fourth quarter, improved our period-end financial close and reporting process as a whole. Management has further tested these and other implemented controls during the first quarter of 2017 and found them to have continued to be effective. Accordingly, management has concluded that, as of March 31, 2017, this material weakness has been remediated.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently involved in any pending legal proceeding or litigation and we are not aware of any such proceedings contemplated by or against us or our property. To our knowledge, there are no material legal proceedings to which any our directors, officers or affiliates, or any beneficial owner of more than five percent of our common stock, or any associate of any of the foregoing, is a party adverse to us or any of our subsidiaries or has a material interest adverse to us or any of our subsidiaries.

Item 1A. Risk Factors

In addition to the other information set forth in this report you should carefully consider the factors discussed in Part I, Item 1A. "Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2016. There have been no material changes from those risk factors. The risks discussed in our 2016 annual report could materially affect our business, financial condition and future results.

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

Sale of Unregistered Securities –

- During the three months ended March 31, 2017, we issued 23,571 shares of common stock upon the exercise of stock options.
- During the three months ended March 31, 2017, we issued 168,203 shares of common stock upon the exercise of warrants.
- During the three months ended March 31, 2017, we issued 532,152 shares of common stock upon conversion of convertible notes in the principal amount of $1,043,750 and $153,591 of accrued interest.

In connection with the foregoing, we relied upon the exemption from registration provided by Section 4(a)(2) under the Securities Act of 1933, as amended, for transactions not involving a public offering.

Purchase of Equity Securities – none

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification of the Chief Executive Officer of the Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer of the Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer of the Registrant pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer of the Registrant pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Link base Document
101.DEF	XBRL Taxonomy Extension Definition Link base
101.LAB	XBRL Taxonomy Extension Label Link base Document
101.PRE	XBRL Taxonomy Extension Presentation Link base Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	VUZIX CORPORATION
Date: May 10, 2017	By: /s/ Paul J. Travers Paul J. Travers President, Chief Executive Officer (Principal Executive Officer)
Date: May 10, 2017	By: /s/ Grant Russell Grant Russell Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.1

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

I, Paul J. Travers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vuzix Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2017

/s/ Paul J. Travers
Paul J. Travers
President and Chief Executive Officer

Exhibit 31.2

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

I, Grant Russell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vuzix Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2017

/s/ Grant Russell
Grant Russell
Executive Vice President and Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report of Vuzix Corporation (“Vuzix”) on Form 10-Q for the quarterly period ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Paul J. Travers, President and Chief Executive Officer of Vuzix, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Vuzix.

/s/ Paul J. Travers
Paul J. Travers
President and Chief Executive Officer

Date: May 10, 2017

Exhibit 32.2

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

In connection with the Quarterly Report of Vuzix Corporation ("Vuzix") on Form 10-Q for the quarterly period ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Grant Russell, Chief Financial Officer of Vuzix, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Vuzix.

/s/ Grant Russell
Grant Russell
Chief Financial Officer

Date: May 10, 2017