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

FORM 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2023

☐ **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	**04-3392453**
(State of incorporation)	*(I.R.S. employer identification no.)*
25 Hendrix Road	
West Henrietta, New York	**14586**
(Address of principal executive office)	*(Zip code)*

(585) 359-5900
(Registrant’s telephone number including area code)

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

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

Securities registered pursuant to Section 12(g) of the Act:
None.

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

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

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

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

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

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer þ	Smaller reporting company ☑
			Emerging growth company ☐

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

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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the voting and non-voting common equity of the registrant held by non-affiliates as of June 30, 2023 was approximately $299,000,000 (based on the closing price of the common stock of $5.10 per share on that date, as reported on the NASDAQ Capital Market and, for purposes of this computation only, the assumption that all of the registrant’s directors and executive officers are affiliates and that beneficial holders of 10% or more of the outstanding common stock are affiliates).

As of April 15, 2024, there were 64,725,108 shares of the registrant’s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference portions of the registrant’s proxy statement for its 2024 annual meeting of stockholders.

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FORWARD-LOOKING STATEMENTS

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

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

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

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

Part 1

Item 1. *Business*

Company Overview

Incorporated in Delaware in 1997, Vuzix Corporation ("Vuzix” or "the Company”) is a leading designer, manufacturer and marketer of Smart Glasses and Augmented Reality (AR) technologies and products for the enterprise, medical, defense and consumer markets. The Company’s products include head-mounted (or HMDs or heads-up displays or HUDs) smart personal display and wearable computing devices that offer users a portable high-quality viewing experience, provide solutions for mobility, wearable displays and augmented reality, as well as OEM waveguide optical components and display engines. Our wearable display devices are worn like eyeglasses or attach to a head-worn mount. These devices typically include cameras, sensors, and a computer that enable the user to view, record and interact with video and digital content, such as computer data, the internet, social media or entertainment applications as well as interact and receive information from cloud-based Artificial Intelligence agents. Our wearable display products integrate display technology with our advanced optics to produce compact high-resolution display engines, less than half an inch diagonally, which when viewed through our Smart Glasses products, create virtual images that appear comparable in size to that of a computer monitor, smartphone, tablet or a large-screen television.

We also provide custom solutions and engineering services to third parties, including Original Equipment Manufacturers (“OEMs”) and Original Design Manufacturers (“ODMs”), of waveguides to enable fully-integrated wearable display systems, including HMDs to commercial, industrial, consumer and defense customers. We do not offer “work-for-hire” services per se but rather offer our engineering services for projects that we expect could result in advancing our technology and potentially lead to long-term supply or OEM relationships.

Today’s near-eye or HMD products for AR, MR, XR and Virtual Reality are typically large goggles which are bulky and heavy and, as a result, have limited broad market appeal. We have developed thin optics, called waveguides, that are fully see-through and enable miniature display engines to be mounted in the temples of the HMD which allows the form factor and weight of the Smart Glasses to be near comparable to conventional eyeglasses. Our Smart Glasses and AR glasses are designed for all day use cases and are small enough to fit in a user’s pocket or purse. No external cabling or tethering to an external computing device or battery is required to use our current Smart Glasses, unlike most competitors today.

We believe that our waveguide optics and display engines offer numerous advantages over other wearable display solutions, including higher contrast, greater power efficiency, less weight, compact size and industrial design, and high brightness images for use outdoors. We also believe that our waveguide optics give us a substantial advantage over competitors’ optics, including other waveguides, because our solution allows us to produce optics that are fully transparent when powered off or on while also delivering high brightness levels required for AR and enterprise Smart Glasses applications. Our latest waveguide optics also support technology to minimize the forward light leakage, or eye glow, which is viewed as a market impediment by wearers and they also now allow for fully integrated prescription that have the same look and feel of conventional eye glasses even with the embedded waveguide.

We believe that our compact display engine technologies coupled with our waveguides are a key differentiator for enabling next generation AR and Smart Glasses hardware because they will ultimately allow us to make HMDs nearly indistinguishable from everyday eyeglasses. We believe that key growth areas for us currently are the enterprise, medical, defense, and security and the broader consumer markets. We are addressing most of these current markets by developing and selling our own finished products and building a growing eco-system of software and services internally, including with our Moviynt SAP logistics group and with our value-added resellers (VARs), distributors, system integrators, software developers and end customers.

Another potential channel to these markets that we are in the early stages of developing includes the sale of components to OEMs and ODMs where we intend to supply mass production of our waveguide optics and display engines to select third parties to use in their products or provide a white-labeled AR Smart Glasses reference design that select third parties can customize and sell as a branded product. In May 2022, we established a dedicated OEM group and introduced a standardized platform of services and solutions for consumer, defense and enterprise customers. This platform offers one-stop shopping for advanced and customized waveguide and display engine solution needs, to subsystems and white-labeled AR smart glasses reference designs that select third parties can customize and sell as a branded product.

We have developed our own intellectual property portfolio that includes not only patents, but also over 25 years of wearable HMD products experience, including manufacturing know-how, industrial design, mechanical design, software, proprietary processes, materials, and equipment to create high performance waveguides, and near-eye display products. Our in-house waveguide manufacturing processes and equipment give us the ability to produce in volume and at broad market price points. Our broad in-house waveguide manufacturing capabilities include turnkey specification for design, mold production, replication and test, and system integration.

In 2022, we began investing in our own next generation microLED display technology with Atomistic SAS, a new entity based in France with whom we are engaged as a partner. We believe our technology, intellectual property portfolio and established position in the marketplace give us a leadership position in AR and Smart Glasses products, waveguide optics, microLEDs and display engine technology. The progress of Atomistic efforts is in part measured in milestones and they have achieved 6 out of 10 key milestones towards the ultimate goal of fully-functioning high efficiency MicroLEDs.

Our History

Historically, we have focused on three markets: the consumer markets for VR, entertainment and mobile video; Smart Glasses products for enterprise; and night-vision display electronics and rugged mobile displays for defense markets. We introduced our first HMD products over 25 years ago and we have offered numerous product models and versions with ever-advancing features and capabilities that have served these three markets. In June 2012, we sold the assets that produced products and provided services to military organizations and defense organizations and exited the defense and security markets by giving that buyer a non-compete period of exclusivity for 10 years. Effective June 2022, all market restrictions in the defense and security space for the Company expired and, as a result, we have resumed marketing and sales initiatives directly into the defense and homeland security markets. Our products have evolved over the years from using conventional optics and typically larger and bulkier wearable display form factors to now using advanced waveguide optics in wearable displays that are approaching the look and feel of fashion forward all day wearable solutions.

Overall Strategy

Our goal is to establish and maintain a leadership position as a worldwide supplier of wearable displays and computers including AR smart glasses solutions, as well as manufacturing related components needed to build such products, for third party OEMs and ODMs. We strive to be an innovator in designing ubiquitous wearable display devices and computers that can enable hands-free enterprise productivity applications, see-what-I see remote viewing, and AI and AR applications. We seek to generate top-line revenue and bottom-line profitability growth through the continued introduction of market leading technologies, including AR Smart Glasses, waveguides and display engines, software applications and solutions.

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

- develop innovative products based on our unique technology for both specialized and large enterprise and medical markets, as well as for defense and security;
- develop a select suite of software applications that can take advantage of our products, offering these solutions bundled with our hardware and through our “app store”;
- promote and enhance the development of third-party software that can take advantage of our products, including offering apps and software through our own “app store”;
- sell our products or license our technology to third-party companies that would incorporate and sell them as a new product with their own brand name (OEM partners);

- sell our waveguide products to OEMs and ODMs as a standard product or on a custom order basis to meet their design requirements;
- optimize waveguide manufacturing efficiencies while protecting proprietary processes;
- invest in new microLED display technologies;
- develop OEM and mass production partnerships in the AR Smart Glasses market;
- develop new microdisplay engine products utilizing third-party displays and ultimately our own microLED displays to sell to third-party OEMs
- extend our innovative and proprietary technology leadership;
- enhance and protect our intellectual property portfolio;
- broaden and develop strategic relationships and partnerships;
- leverage third-party technology and marketing strategic relationships;
- establish multiple revenue sources;
- improve brand recognition;
- provide excellent products and service; and
- attract and retain highly qualified personnel.

We believe that the continued introduction of innovative products in our target markets is essential to our growth. Our products tend to have life cycles that span less than 5 years. We have assembled a group of highly skilled engineers who work internally as well as with external consultants to continue our product development efforts. Our primary development efforts are focused on waveguide optics (and their manufacture), projection engines, new microLED display technologies with our investment in Atomistic, low-power electronic designs, firmware and wearable computing software, and the industrial design and ergonomics of wearable displays. Our display product development efforts are focused towards continually enhancing the resolution, performance and manufacturability of our display products. We expect to continue our research and development expenditures in the future and perhaps increase them as our revenues grow. We have also acquired and licensed technologies developed by third parties and we may continue to do so in the future.

The Market

The mobile phone has evolved into a ubiquitous, location-aware, and powerful smart mobile computing device. Mobile technology has redefined the way people interact with their world, both at work and play, and has become an essential technology for most individuals around the globe. We believe that interactive AR content, Artificial Intelligence (“AI”), Edge Computing, internet of things (“IoT”), and speech-based cloud services will significantly further change the way such mobile computing devices are used and how content is delivered to the user though head worn displays, including the enabling of new experiences that cannot be experienced in any other way. We believe head-worn displays that are hands-free that can delivery real-time digital content have the ability to change the future of the computing industry.

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

Our business for the last several years has primarily focused on the enterprise, industrial, medical, and defense markets. We believe the demand for head-worn displays in these markets is being driven by the following:

- the continued growth of mobile computing devices;
- increasing demand for Internet, social media, and cloud services’ access “anywhere, anytime”;
- the expansion of IoT that enables the exchange of information among smart connected devices to improve timeliness and visibility;
- the growing use of AR/XR applications that will drive the need for head-worn display solutions to replace the need to hold up handheld devices to use the applications;

- the exploding use of AI with its potential to change how most people live, work and play.

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

Target Markets

We offer smart wearable display and computing products that enable the development and deployment of AR applications, and OEM services and hardware solutions that include waveguides, optical components, display engines, subsystems and full white label designs. Our target markets and applications by sector are:

Enterprise

Our Smart Glasses are being used for numerous applications including: remote service video support, wearable computer displays, viewing of wireless sensor data, quality assurance, hands-free access to work instructions such as assembly checklists and manuals, in-the-field maintenance, warehouse pick-and-pack, real-time viewing of remote images, and training and education. Our products can typically run native Android applications within the glasses that, for example, allow them to stream video in real-time, scan bar codes, share visuals related to the work at hand and much more, all of which are highly useful for many enterprise applications. We believe that increasing demand for easy and instant data accessibility in a wide variety of commercial and industrial markets offer significant opportunities for our products. The benefit of hands-free mobile displays and computers over a handheld device or laptop on a cart is significant. Most mobile workers need the use of their hands while working, and gaining hands-free access to information can significantly improve work performance, enhance safety, and reduce errors. There are many reasons why enterprise users are adopting Smart Glasses, such as for:

- increasing productivity;
- eliminating travel costs;
- improving worker safety;
- lowering carbon footprint;
- augmenting worker intelligence;
- remote mentoring and training;
- reducing worker errors; and
- protecting worker health

Medical

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

Security and First Responders

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

Defense

Vuzix has multiple major defense customers that have been or are developing our waveguides into their head mounted programs. Some desire full custom waveguides and display engines, while others plan to deploy our standard waveguide and display engine offerings. Vuzix waveguides appeal to U.S. defense companies because they are made in the United States, unlike other available solutions. We expect several of these defense customers to move from R&D projects to scaled production over time.

Consumer

We believe that one of the most significant drivers of longer-term wearable display market adoption that will change the future of computing and result in broad adoption of AR in smaller wearable packages will be the augmentation of the real world with cloud-based information and AI. This capability will allow smart phone users to be able to keep their phones in their pockets yet still receive location-aware content overlaid with their real-world view.
Glasses equipped with AI capabilities are ideal for consumer needs such as language translation, closed captioning, messaging, directions, health reporting, and workout status, among others. The advent of AI programs such as OpenAI and ChatGPT are expected to significantly accelerate this demand in the upcoming years. We believe that the keys to the consumer AR market are fashion-forward lightweight smart glasses that can support the user’s prescription. Vuzix’ new OEM solutions offerings are pointed directly at these needs.

Products

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

Our current products include:

M400 and M4000 Smart Glasses **(M series)**

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

Vuzix Blade® Smart Glasses

We introduced the second generation of our Blade Smart Glasses as a monocular system in September 2022. The Blade 2 added a host of advanced features and performance, including stereo audio, improved CPU performance, Android 11 OS and an autofocus camera, all to help meet the needs of connected workers. We believe the Vuzix Blade is the natural evolution of AR smart glasses by providing the user with a wide range of features and capabilities in a natural glasses form factor. The display imagery is projected visually out in front of the user like the heads-up display in a car. Current applications range from basic text messaging and answering the phone to overlaying mapping directions, menus, work instructions, documentation, biometrics and much more. The intuitive and feature-packed Vuzix Blade OS can leverage voice controls and external AI systems, allowing users to leave their phones in their pockets for most functions and adds the ability to connect the information being presented to the real world, including from cloud-based speech AI platforms such as Amazon Alexa. The Blade also has connector applications, with annual subscriptions, that allow the glasses to join the most popular video conferencing applications. We believe the Blade Smart Glasses is the first natural step to replacing the smart phone with a ubiquitous wearable device for all.

Vuzix Shield™ Smart Glasses

We announced the Vuzix Shield Smart Glasses in 2022, which we believe is a revolutionary leap for enterprise AR smart glasses, as our first binocular AR system utilizing microLED. The Vuzix Shield Smart Glasses offer a computing platform with more power and performance over our M400 series platform and its related enhanced AR capabilities coupled with Vuzix' proprietary waveguide optics driven by miniature microLED stereo displays to provide a completely non-occluded see-through heads-up display. Housed inside lightweight, stylish, prescription-ready safety glasses combined with stereo HD cameras, the Vuzix Shield delivers a singular wearable AR experience. The Shield, was commercially released in the second half of 2023. It also includes connector applications, with annual subscriptions, that allow the glasses to join the most popular video conferencing applications along with a 3-D user interface.

Vuzix Z100 Smart Glasses

We announced the Vuzix Z100 Smart Glasses, a lightweight enterprise-focused product based on our Ultralite AR Smart Glasses platform, at CES in January 2024. The Z100, which will initially be offered as a developer's edition, pairs seamlessly via Bluetooth with Android or iOS IOT devices. They represent the first attractive, functional bridge between AI platform tools, where situational guidance can streamline workflows, and human workers to deliver the benefits of a truly connected workplace. Running up to 48 hours on a single charge, Vuzix Z100 Smart Glasses pack industry-defining heads-up waveguide technology into a sleek, fashionable form factor that weighs in at just 38 grams – the weight of a standard pair of glasses. Advanced monocular waveguide optics, combined with Vuzix' custom microdisplay engine, create a crisp, transparent, monochrome image that can deliver all the important information on a user's Android or iOS device, hands-free right before their eyes. Wearers get heads-up access to important task information, from language translation and closed captioning, to directions, to health and workout status, to messaging, workflow outputs and much more.

OEM Waveguide Optics and Display Engines

We believe our waveguide and display engine technologies address the critical performance parameters for next generation AR products, including higher brightness, sharper resolution, true see-through capabilities, compact size, lower power consumption, and longer operational life. As we manufacture our waveguides and display engines in higher volumes at reduced costs and capitalize on our waveguide manufacturing expertise, we believe that our products will be increasingly well-positioned to compete with other see-through optics and displays, particularly as demand expands for sophisticated mobile computing devices offering higher resolution and better image quality for AR/XR and Smart Glasses applications. We are developing, with partners, new microLED display technologies that should greatly increase the ability to offer high resolution displays that can overlay AR information and graphics to wearers in nearly any environment. The goal is to have extremely efficient full color micro displays capable of high brightness for use in any conditions. We believe that our waveguide and display engine technologies address the critical performance parameters for next generation AR products, including higher brightness, sharper resolution, true see-through capabilities, compact size, lower power consumption, and longer life.

Mobilium® Logistics Mobility Software

We acquired Moviynt®, a US-based SAP Certified ERP platform software solution provider, to support hand-held mobile phones and scanners used in logistics, warehousing and manufacturing applications in November 2022. Moviynt, a boutique-specialized software firm, has developed a logistics mobility software platform (Mobilium®) which eliminates traditional middleware, and is device agnostic. Mobilium can ultimately support multiple ERP systems and modern-day warehouse picking with wearable devices such as Vuzix' smart glasses, handheld devices such as scanners, and even mobile phone-based systems. Moviynt's SAP studio product is highly configurable and allows customers to customize and optimize specific mobile workflows for a given use case. Moviynt's core technology and architecture consists of a certified SAP gateway module, IOS and Android client and mobile apps that run on a wide range of handhelds and wearables. This technology is unique in that it plugs directly into the customer's SAP environment and does not require any new hardware, middleware or intermediate servers to process warehouse and logistics related transactions such as cycle counts and picks and transfers on the shop floor. Moviynt's technology is SAP certified and compatible with other ERP systems including Oracle, which will also be fully developed and supported over time. The Mobilium software solution can now work with Vuzix smart glasses, mobile phones, and industry standard smart barcode data collection terminals.

Applications for Smart Glasses

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

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

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

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

App Store for Smart Glasses

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

OEM Services and Products

Waveguide Optics and Display Engines

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

Waveguides require a display engine built for the purpose of the intended design. Vuzix is able to address most of these design specifications regardless of size, light coupling, power consumption, or resolution.

We believe our waveguide and display engine technologies address the critical performance parameters for next generation AR products, including higher brightness, sharper resolution, true see-through capabilities, compact size, lower power consumption and longer operational life. As we manufacture our waveguides and display engines in higher volumes at reduced costs and capitalize on our waveguide manufacturing expertise, we believe that our products will be increasingly well-positioned to compete with other see-through optics and displays, particularly as demand expands for sophisticated mobile computing devices offering higher resolution and better image quality for AR/XR and smart glasses applications. We are developing, with partners, new microLED display technologies that should greatly increase the ability to offer high resolution displays that can overlay AR information and graphics to wearers in nearly any environment. The goal is to have extremely efficient full color micro-displays capable of high brightness for use in any conditions. We believe that our waveguide and display engine technologies address the critical performance parameters for next generation AR products, including higher brightness, sharper resolution, true see-through capabilities, compact size, lower power consumption, and longer life.

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

Engineering Services

Historically, we have provided fully-integrated wearable display systems, including head mounted displays, human computer interface devices, near-eye display-related engineering services and wearable computers to commercial, industrial and medical customers. Since the expiration in June 2022 of a 10-year non-compete agreement, we have resumed marketing and selling to defense, first responders and security customers. Such potential customers include police, fire fighters, EMTs, other first responders, and homeland and border security personnel.

We primarily respond to sales inquiries for our engineering services programs and OEM component requests directly and usually in response to inbound inquiries. We do not offer "works-for-hire" services at Vuzix but rather offer our services to opportunities that could result in advancing our technology or developing long-term supply or OEM relationships. We believe that we have established a strong reputation for quality, performance, and innovation for wearable near-eye display systems, waveguides, and display engines that will be attractive to many types of commercial users who want to leverage our services and products within their businesses. We continue to receive inbound requests for engagement related to our proprietary waveguide optics and miniature display engines from some of the world's largest consumer and mobile electronics firms. Our business strategy is to commercialize our waveguide and display engine technologies and products to permit select ODMs and OEMs to integrate and embed our technologies and products in a way that best matches their unique capabilities and timeline for bringing their products to market. Our design and engineering staff are actively involved with customers during all phases of prototype design through to production by providing engineering data, up-to-date product application notes, regular follow-up and technical assistance.

Defense and Security Products

As noted above, the 10-year non-compete restrictions with the buyer of our former defense division, TDG Acquisition LLC (DBA – Six15 Technologies ("Six15")) expired in June 2022. This allows us to again pursue, on an unrestricted basis, opportunities related to the Company's smart glasses and waveguide optics technologies into these expanded market opportunities related to first responders, US Department of Defense, security organizations and the Military.

Technology

We believe that it is important to make substantial investments in research and development to maintain our competitive advantage. The development and procurement of intellectual property rights relating to our technologies is a key aspect of our business strategy. We expect to continue to improve our products through our ongoing research and development and advancements made by our third-party suppliers of key components.

We believe that the range of our proprietary technologies gives us a significant competitive advantage. Our technologies relate to advanced optics systems including passive and active see-through imaging waveguides, micro-projection display engines, investments in microLED displays, and specialized software drivers and applications for wearable displays and computers. We also have a portfolio of trade secrets and expertise in nano-imprinting using high- stability mold substrates, nano structure embossing, and engineering toolsets for the design and manufacturing of diffractive waveguide optics.

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

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

On May 12, 2022, the Company signed a series of agreements with Atomistic SAS, a French company that is developing new microLED displays and a related backplane. These agreements provided for an exclusive license by the Company of key microLED technology and for the custom design of a backplane, for cash commitments totaling $30 million along with equity issuance commitments to be made by the Company relating to certain deliverables and the achievement of performance milestones by Atomistic. On December 16, 2022, the Company signed new agreements with Atomistic (the "Atomistic Agreements") that superseded the prior May 12, 2022 agreements, whereby the scope for the construction of a backplane was modified and the Company obtained an additional license in an alternative self-emissive microLED technology. This multi-year project, if this new IP proves out, could result in industry-leading efficient full color HD microLED displays in an extremely small form-factor.

Product Development

We believe that the continued introduction of new products in our target markets is essential to our growth. Our products tend to have life cycles that span less than five years. We have assembled a group of highly skilled engineers who work internally as well as with external consultants to continue our product development efforts. Our primary development efforts are focused on waveguide optics (and their manufacture), projection engines, new microLED-display technologies, low-power electronic designs, firmware and wearable computing software, and the design and ergonomics of wearable displays. Our display product development efforts are focused towards continually enhancing the resolution, performance and manufacturability of our display products. We expect to increase our research and development expenditures in the future and as our revenues grow. We have also acquired and licensed technologies developed by third parties and we may continue to do so in the future.

Major technologies that we employ in our products include:

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

See-Through Waveguides: We have developed a range of patents and patents-pending around our see-through waveguides, as well as passive, dynamic and diffractive optics-based waveguides that are the basis for some of our future slim wearable display AR and smart glasses products. We are striving to develop ultra-compact micro-display engines to magnify and focus the light from a display into a user's eye. Our development goal with these waveguides is to create AR-based wearable displays that will appear to others as practically indistinguishable from today's conventional sunglasses by most measures, including comfort, size, weight and ergonomics.

Recently announced advancements in our waveguide technology include Incognito and integrated vision correction. Vuzix Incognito technology manages internal light reflection and thus minimizes and manages forward light leakage within a waveguide, enhancing low light optical performance and significantly advancing Vuzix' already industry-leading forward light ratio of 1:8. Incognito technology thereby improves the contrast of virtual images in AR smart glasses and interaction with the external environment. These refinements have been accomplished with no increases in Vuzix' manufacturing cost per waveguide. Multiple patents and patents pending are in place related to system processes and integrating scripts or optical power for smart glasses eyewear. The prescription lenses need to be finished, trimmed, and mounted to the waveguides, all of which must be conducted in a controlled dust-free environment and utilize the existing industry methods for high volume capacity waveguide prescription glasses. Vision correction will initially support a range of +2D to -8D diopters but will ultimately support any prescription.

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

Custom Display Engines: We have patents and patents-pending on intellectual property around microDLP display engines. We have also worked on very compact microLED projectors and are also working on microLED engines designed specifically for our waveguide optics solutions. We are currently working with multiple partners on microLED engines, both monochrome and color, and have delivered preliminary evaluation systems to select partners and potential OEM customers.

Patents and Other Intellectual Property

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

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

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

Our technologies enable us to provide low-cost, small form factor, high-resolution wearable display products. To protect our technologies, we have developed a patent portfolio which currently consists of 194 issued U.S. and foreign patents and 178 pending U.S. and foreign patent applications. We are also currently evaluating several invention disclosures for the purposes of submitting design and utility patent applications. Our U.S. and foreign patents expire on various dates with the capacity to remain enforceable through at least September of 2043. In addition, in connection with the sale of our defense division in 2012, we received a worldwide, royalty-free, assignable grant-back license to all the patents and other intellectual property sold for use in the manufacture and sale of products in the consumer markets.

In addition to our various patents, we have 8 registered U.S. trademarks and 81 trademark registrations worldwide.

Competitors

The near-eye wearable computer or personal display and mobile device industry in which we operate is highly competitive and evolving rapidly. We compete against both direct view display technology in smart phones and tablets and wearable display technology. We believe that the principal competitive factors in the personal display industry include image size, image quality, image resolution, power efficiency, manufacturing cost, weight and dimension, feature implementation, AR capabilities, ergonomics, style, hands-free capabilities and, lastly, the interactive capabilities of the overall display system.

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

Competition – Binocular Wearable Display Products

Vuzix AR Smart Glasses competitors include binocular wearable displays and virtual reality systems, using micro-displays or smaller flat panels. Examples of such companies include or have included Carl Zeiss, Seiko Epson (Epson), Sony Corporation, Microsoft Corporation, Avegant Corp., Meta (formerly Oculus/Facebook), HTC Corporation, Razer Inc., HP, Lenovo and many others. Some of these firms have discontinued their efforts while others continue to introduce new products. We believe that most of these competitive products have received limited customer acceptance, except for Meta's products, due to being bulky, delivering limited operating time, and when connected to a computer, requiring extra cables. Despite their size, VR headsets from companies like Meta and Sony have been selling in the millions of units, primarily for game applications. VR systems are either standalone devices or require a wire to be connected to a PC to operate. To date, the most popular units have been standalone devices from Meta which incorporate a computer similar to the ones used in our smart glasses products. Apple has also recently introduced the Vision Pro, a mixed reality headset.

Competition – AR Glasses

In the AR markets, there are currently few competitors with most of this market currently aimed at the high-end and research markets. Companies with products in this area include Microsoft Corporation, Sony Corporation, Epson, Lenovo, Magic Leap, Xreal, CastAR, and Apple. Further, industry watchers have speculated that companies such as Google, Snap, and Meta may offer or support AR wearable display products in the future, but to date, no specific product launch details have been officially announced. Today, many of these products are fairly bulky and are typically tethered to an external controller. Some VR goggles are using external view cameras to simulate an AR environment where the wearer can see the outside world. The Meta Quest Pro announced in the Fall of 2022 is an example of this and it retails for $1,500. Many such devices are being sold as AR Smart Glasses and are currently targeted at enterprise and academic researchers. The most complete and functional systems today are the Microsoft Hololens II and the Magic Leap Two, both of which cost $2,295-$3,500 per unit. Magic Leap 2 for Enterprise starts at $4,999 and goes higher based on features purchased.

Competition – Monocular Smart Glasses and Wearable Display Products

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

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

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

Competition – Waveguides and Display Engines

There are a limited number of manufacturers of waveguide optics, all targeted at OEM producers of AR and smart glasses. Competitors to our waveguide products include or have included Lumus, WaveOptics (acquired by Snap), Digilens, Dispelix, Optinvent and several others. In addition, several new waveguide manufacturers from China have begun demonstrating their solutions at recent trade shows.

Sales and Marketing

Sales

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

In the Smart Glasses and AR markets, we are currently focused on the enterprise space and as such are building strategic marketing relationships with software firms and distributors to address and support enterprise customers. We are, in parallel, supporting a VAR network with leading companies in various vertical markets from warehousing to field service to medical. These VARs provide their software and services offerings to their respective customer bases. We are also supporting select larger key accounts and distributors with our in-house direct sales team. For our Smart Glasses, we continue to foster an ecosystem with application developers from around the world. We also have our own hosted application store where our Smart Glasses customers can download and purchase applications and software developer kits.

We currently sell our products internationally through resellers, distributors, direct to commercial customers, and via online stores and various Vuzix operated web stores in the USA, Europe and Japan. Our international focus is currently on Japan and the EMEA (including the UK, Europe, Middle East and Africa). In Japan, we have a branch sales and service office and a small warehouse in Tokyo. We have a wholly-owned subsidiary, Vuzix (Europe) Limited, through which we conduct our business in the EU and Middle Eastern markets. We maintain small European sales offices in Oxford, England and Munich, Germany that are staffed by full-time sales consultants or employees. For warehousing, we have contracted with a third-party fulfillment center based in the UK and the Netherlands to service our customers in the EMEA. We also currently serve other APAC customers through North American (West Coast) and Tokyo sales offices.

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

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

We believe that the technical nature of our OEM products, including waveguides and display projectors with micro-displays, demands close relationships with such customers. Our sales and marketing staff, assisted by our technical staff and senior management, visit prospective and existing customers worldwide on a regular basis. We believe these contacts are vital to the development of a close, long-term working relationship with our OEM customers, and in securing accurate and regular forecasts, market updates and information regarding technical and market trends. We also participate in industry specific trade shows and conferences.

Marketing

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

- product reviews, case studies and promotions in trade publications;
- case studies and white papers on successful enterprise uses of Smart Glasses and AR;
- product and technology views for our website and social media;

- internet search engine ads and social media advertising and targeted emails;
- public relations; and
- trade shows and event sponsorships.

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

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

Manufacturing

We purchase product components from our suppliers, engage third-party contract manufacturing firms to perform electronic circuit board and cable assemblies, and now do the final assembly of our products primarily in our West Henrietta, New York facilities. We are experienced in the successful production of our products in moderate volumes. Our current facilities are capable of producing tens of thousands of finished products annually, and we believe producing out of these facilities at these levels is more economical and easier to manage than through third parties. We also manufacture all of our waveguide optics in our cleanroom environments at our West Henrietta, New York facility. We evaluate contract manufacturers and component suppliers on an ongoing basis, including whether or not to utilize new or alternative contract manufacturers or component suppliers. However, we also expect to manufacture all of our waveguide optics only at our West Henrietta, New York facility. In October 2022, we announced the signing of a new lease agreement for additional floor space in a building adjacent to our West Henrietta facility for the express purpose of expanding our waveguide production capacity.

We manufacture all of our waveguide optics in our cleanroom environments in West Henrietta, New York. As stated above, we completed and commenced production of waveguides at a dedicated state-of-the-art waveguide production facility located adjacent to our headquarters in West Henrietta, New York in 2023. This facility increases our waveguide unit capacity, lowers manufacturing costs, and allows us to utilize the more advanced processes needed for our latest waveguide designs.

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

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

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

Backlog

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

Human Capital

As of December 31, 2023, the Company had approximately 94 employees globally. The Company is committed to attracting, developing, and retaining talent to enable our strategic vision. This commitment directly shapes our approach to fostering a culture of inclusion and diversity and ensuring employees can reach their potential. We believe that our strong Company culture is a key enabler of our success. The values of accountability, integrity, teamwork, agility, and innovation are central to our culture and how we operate and work together. We take proactive steps to ensure that this culture continues to permeate throughout our organization. We consider our relations with our employees to be very good. In addition, we believe our compensation structure aligns with our stockholders' long-term interests and reflects the Company's commitment to pay for performance.

Available Information

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

Information about Geographic Revenue

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

History - Corporate

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

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

Item 1A. *Risk Factors*

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

Summary of Risk Factors:

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

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

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

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

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

General Business and Industry Risks

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

We reported a net loss of $50,149,077 for the year ended December 31, 2023, a net loss of $40,763,573 for the year ended December 31, 2022, and a net loss of $40,377,160 for the year ended December 31, 2021. We have an accumulated deficit of $293,984,793 as of December 31, 2023.

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

We operate in a highly competitive and complex market and believe our future success depends in part on our ability to effectively manage the growth and increased complexity of our business. The following factors could present difficulties to us:

● Managing our ongoing research and development efforts associated with the development of new products based on emerging and innovative technologies;

● Managing product quality issues to minimize higher-than-expected warranty claims or returns that could harm our business and operating results;

● Managing our rights under our third-party technology licenses to avoid losing any competitive advantages in the market or the ability to commercialize certain products or technologies completely, which could substantially decrease our revenues;

● Managing our marketing initiatives effectively to generate sufficient levels of product and brand awareness;

● Managing our technical support, firmware or software updates on products to maintain customer satisfaction;

● Managing the need to replace and regularly introduce on a timely basis new products and technologies, enhance existing products, and effectively stimulate customer demand for new products and upgraded or enhanced versions of our existing products;

● Managing the maintenance and further development of our sales channels for our products, including developing and supporting our value-added resellers (VARs), distributors and retail sales channels, many of which offer products from several different manufacturers and could give a higher priority to selling other companies' products.

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

The market for head-worn display devices, including AR and Smart Glasses, is highly competitive. Further, we expect competition to intensify in the future as existing competitors introduce new and more competitive offerings alongside their existing products, and as new market entrants introduce new products into our markets. We compete against established, well-known diversified consumer electronics manufacturers including Samsung Electronics Co., Sony Corporation, LG Electronics (LGE), HTC, Lenovo, and many of our current competitors have substantial market share, longer operating histories, larger intellectual property portfolios, diversified product lines, ability to bundle competitive offerings with our products and services, well-established supply and distribution systems, strong worldwide brand recognition and greater financial, marketing, research and development and other resources than we do.

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

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

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

We cannot currently rely on long-term purchase orders or commitments to protect us from the negative financial effects of a decline in demand for our products. We typically plan our production and inventory levels based on internal forecasts of customer demand, which are highly unpredictable and can fluctuate substantially. The uncertainty of product orders makes it difficult for us to forecast our sales and allocate our resources in a manner consistent with our actual sales. Moreover, our expense levels and the amounts we invest in capital equipment and new product development costs are based in part on our expectations of future sales and, if our expectations regarding future sales are inaccurate, we may be unable to reduce costs in a timely manner to adjust for sales shortfalls.

As a result of these and other factors, investors should not rely on our revenues and our operating results for any one quarter or year as an indication of our future revenues or operating results.

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

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

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

The mobile display market is dominated by displays larger than one-inch, most of which are based on direct view liquid crystal display (LCD) and organic light emitting display (OLED) technology. A number of large established global companies have made and continue to make substantial investments in, and are conducting research to improve characteristics of, handheld direct view LCDs and OLED displays. Advances in direct view LCD and OLED technology, microLED or other technologies, including foldable and stretchable displays may overcome current market limitations and permit them to remain or become more attractive technologies for personal viewing applications, which could limit the potential market for our near-eye display and computing technology and cause our business strategy to fail.

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

In addition to competing with direct view displays, we also compete with micro-display-based personal display technologies that have been developed by many other companies. Numerous other start-up companies have announced their intentions to offer smart glasses and AR products and developer kits in the near future. Most of our competitors have greater financial, marketing, distribution and technical resources than we do. Moreover, our competitors may succeed in developing new micro-display-based personal display technologies and near-eye display products that are more affordable or have more desirable features than our technology. If our products are unable to capture a reasonable portion of the smart wearable display market, our business strategy may fail.

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

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

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

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

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

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

Our MicroLED and exclusive license and investment with Atomistic may not be renewed and its carrying value may be not recoverable.

The Company signed a series of agreements with Atomistic SAS ("Atomistic"), a French company that is developing new microLED displays and related technologies. These agreements provided for an exclusive license by the Company of key microLED technology, for cash commitments totaling $30 million (which has been fully paid as of the date of this 10-K report) along with equity issuance commitments to be made by the Company relating to certain deliverables and the achievement of performance milestones by Atomistic. This is a multi-year project, with much of it being research and development work regarding new IP. If this technology takes longer to commercialize, or fails to achieve its expected results, the future value of the license and Vuzix' issued share investments would be at risk and could result in the full loss of those related amounts on our financial statements. Further, until the Company achieves a near 100% ownership in Atomistic by the issuance of Vuzix shares for the completion of development milestones, or is permitted to waive them and accelerate the share issuances to gain 100% ownership of Atomistic, the Company and the current owners of Atomistic must negotiate every 12 to 24 months new funding contributions for the extension of the Company's exclusive license. If such amounts cannot be reasonably negotiated or would be considered too large by Vuzix in the future, failure to pay the additional license fees would result in the termination of Vuzix' existing license to the Atomistic technologies.

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

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

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

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

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

We purchase product components from our suppliers and engage third-party contract manufacturing firms to perform electronic circuit board and cable assemblies. We assemble our finished products to our plant in West Henrietta, New York. Additionally, we use our West Henrietta, New York facility for the production of waveguides and their related display engines and intend to do so for some time. In the future, our mature products could have their final assembly performed outside the United States. Accordingly, a substantial part of our operations, including manufacturing of certain components used in our products, could 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 burdens and costs with a wide variety of foreign laws and regulations, particularly labor, environmental and other laws and regulations that govern our operations in those countries;

- legal uncertainties regarding foreign taxes, tariffs, border taxes, quotas, export controls, export licenses, import controls and other trade barriers;

- economic instability and high levels of inflation in the countries of our suppliers and customers, particularly in the Asia-Pacific region, causing delays or reductions in orders for their products and therefore our sales;

- political or public health instability, including global pandemics, such as COVID-19, in the countries in which our suppliers operate;

- changes or volatility in currency exchange rates; and

- difficulties in collecting accounts receivable and longer accounts receivable payment cycles.

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

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

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

Our business and financial performance may be adversely affected by cyber-attacks on information technology infrastructure and products, as well as changes in cybersecurity and if our information technology security systems were infiltrated and confidential and/or proprietary information were taken, we could be subject to fines, lawsuits and loss of customers.

Significantly larger organizations with much greater resources than us have been the victim of cybercrimes. We routinely receive emails probing our Internet security, and our Internet security systems have detected outside organizations attempting to install Trojan virus software packages in our systems. We rely on our electronic information systems to perform routine transactions to run our business. We transact business over the Internet with customers, vendors and our subsidiaries and have implemented security measures to protect against unauthorized access to this information. We have also implemented security policies that limit access via the Internet from the Company to the outside world based on the individual's position in the Company. We routinely receive security patches from software providers for the software we use. Our primary concerns are inappropriate access to personnel information, information covered under the International Traffic in Arms Regulation, product designs and manufacturing information, financial information and our intellectual property, trade secrets and know-how. Our business may be impacted by disruptions to our own or third-party information technology (IT) infrastructure, which could result from, among other causes, cyberattacks on or failures of such infrastructure or compromises to its physical security.

Cybersecurity threats are continuously evolving and include, but are not limited to, both attacks on our IT infrastructure and attacks on the IT infrastructure of our customers, suppliers, subcontractors and other third parties with whom we do business routinely, both on premises and in the cloud, attempting to gain unauthorized access to our confidential, proprietary, or otherwise protected information, classified information, or information relating to our employees, customers and other third parties, or to disrupt our systems or the systems of third parties. We are also exposed to the risk of insider threat attacks. Any such attacks could disrupt our systems or those of third parties, impact business operations, result in the unauthorized release of confidential, proprietary, or otherwise protected information, and corrupt our data or that of third parties. The threats we face are continuous and evolving and vary in degree of severity and sophistication. These threats include advanced persistent threats from highly organized adversaries, including but not limited to cyber criminals, nation states and so-called hacktivists, particularly those adverse to the security interests of the U.S. and its allies, which target us and other defense contractors. These types of threats are related to the geopolitical environment and have, therefore, grown in number due to recent geopolitical conflicts. In addition, as a result of the rapid pace of technological change, we and our customers, suppliers, subcontractors and other third parties with whom we conduct business continue to rely on legacy systems and software, which can be more vulnerable to cyber threats and attacks. Moreover, we, like other companies, are seeing an unprecedented number of previously unknown vulnerabilities, for which there are no known mitigations, being revealed by new attacks. Further, the sophistication, availability and use of artificial intelligence by threat actors present an increased level of risk. Due to the evolving threat landscape, we have experienced and expect to continue to experience more frequent and increasingly advanced cyber-attacks. In addition, changes in domestic and international cybersecurity-related laws and regulations have expanded cybersecurity-related compliance requirements, and cybersecurity regulatory enforcement activity has grown. We expect the regulatory environment to continue to evolve, and staying apace with these regulatory changes could increase our operational and compliance expenditures and those of our suppliers, and lead to new or additional IT and product development expenses. We also face reputational, litigation and financial risks in relation to potential required disclosures and increased risk of enforcement. We continue to make investments and adopt measures designed to enhance our protection, detection, response, and recovery capabilities, and to mitigate potential risks to our technology, products, services and operations from potential cybersecurity threats, as well as to comply with evolving regulations. However, given the unpredictability, nature and scope of cyber-attacks, it is possible that we are unable to defend against all cyber-attacks, that potential vulnerabilities could go undetected and persist in the environment for an extended period, or that we may otherwise be unable to mitigate customer losses and other potential consequences of these attacks. In some cases, we must rely on the safeguards put in place by our customers, suppliers, subcontractors and other third parties to protect against and report cyber threats and attacks. We could potentially be subject to production downtimes, operational delays, other detrimental impacts on our operations or ability to provide products and services to our customers, the compromise of confidential information, intellectual property or otherwise protected information, misappropriation, destruction or corruption of data, security breaches, other manipulation or improper use of our or third-party systems, networks or products, financial losses from remedial actions, loss of business, or potential liability, penalties, fines and/or damage to our reputation. Any of these could have a material adverse effect on our competitive position, results of operations, financial condition or liquidity. Due to the evolving nature of such risks, the impact of any potential incident cannot be predicted.

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

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

We need to hire and retain highly skilled technical personnel as employees and independent contractors in order to develop our products and grow our business. The competition for highly skilled technical, managerial, and other personnel is at times intense. Our human capital and labor issues related to recruiting and retention success is substantially dependent upon our ability to offer competitive salaries and benefits to our employees. We must compete with companies that possess greater financial and other resources than we do and that may be more attractive to potential employees and contractors. To be competitive, we may have to increase the compensation, bonuses, stock options and other fringe benefits we offer to employees in order to attract and retain such personnel. The costs of retaining or attracting new personnel may have a material adverse effect on our business and operating results. If we fail to attract and retain the technical and managerial personnel required to be successful, our business, operating results and financial condition could be materially adversely affected.

Operational Risks

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

Our product technology and manufacturing processes are evolving which can result in production challenges and difficulties. We may be unable to produce our products in sufficient quantity and quality to maintain existing customers and attract new customers. In addition, we may experience manufacturing problems which could result in delays in delivery of orders or product introductions. We currently do not have full equipment redundancy in our manufacturing facility. If we experience any significant disruption in the operation of our manufacturing facility or a serious failure of a critical piece of equipment, we may be unable to supply products to our customers in a timely manner. Interruptions in our manufacturing could be caused by equipment problems, the introduction of new equipment into the manufacturing process or delays in the delivery of new manufacturing equipment. Lead-time for delivery, installation, testing, repair and maintenance of manufacturing equipment can be extensive. We have experienced production interruptions in the past and no assurance can be given that we will not lose potential sales or be able to meet production orders due to future production interruptions in our manufacturing lines.

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

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

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

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

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

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

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

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

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

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

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

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

Financial and Market Risks

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

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

Our stock price may be volatile in the future.

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

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

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

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

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

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

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

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

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

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

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

We may not achieve some or all of the anticipated benefits of our equity investments.

At December 31, 2023, we had equity investments in companies totaling $5.8 million, where we have limited, if any, control over their governance, financial reporting and operations. As a result, we face certain operating, financial and other risks relating to these investments, including risks related to the financial strength of the investments. These investments may not contribute to our earnings or cash flows. In addition, these companies currently in receipt of our investment dollars may be required to raise additional capital, which may result in our ownership percentage being decreased.

Legal and Regulatory Risks

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

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

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

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

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

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

We are subject to risks related to environmental, social and governance activities and disclosures (ESG) and sustainability requirements.

Concern over climate change may result in new or additional legal, legislative and regulatory requirements to reduce or mitigate the effects of climate change on the environment, which could result in future tax, transportation and other cost increases that could adversely affect our business. Compliance with such requirements could also require additional expenditures by us or our suppliers, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

In addition, ESG reporting and disclosure requirements are continuing to evolve, with increasing global regulation and heightened investor expectations. Companies must develop an expanded set of metrics and measures, data collection and processing, controls, and reporting processes in order to meet regulatory requirements and stakeholder expectations. Failure to promptly and accurately meet these expectations and requirements may result in reputational and brand damage, regulatory penalties and litigation, among other things.

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

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

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

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

The U.S. Foreign Corrupt Practices Act (FCPA), the U.K. Bribery Act 2010 (U.K. Bribery Act), and similar anti-bribery and anticorruption laws in other jurisdictions generally prohibit U.S.-based companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business, directing business to another, or securing an advantage. In addition, U.S. public companies are required to maintain records that accurately and fairly represent their transactions and have an adequate system of internal accounting controls. Under the FCPA, U.S. companies may be held liable for the corrupt actions taken by directors, officers, employees, agents, or other strategic or local partners or representatives. As such, if we or our intermediaries fail to comply with the requirements of the FCPA or similar legislation, governmental authorities in the United States and elsewhere could seek to impose substantial civil and/or criminal fines and penalties which could have a material adverse effect on our business, reputation, operating results and financial condition.

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

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

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

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

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

The U.S. government may alter its approach to international trade policy through the renegotiation, and potential termination, of certain existing bilateral or multilateral trade agreements and treaties with, and the imposition of tariffs on a wide range of products and other goods from China, countries in EMEA and other countries. Given our manufacturing in those countries, and our lack of manufacturing elsewhere, policy changes in the United States or other countries, such as the tariffs already proposed, implemented and threatened, present particular risks for us. There are also risks associated with retaliatory tariffs and resulting trade wars. We cannot predict future trade policy, the terms of any renegotiated trade agreements or treaties, or tariffs and their impact on our business. To the extent that trade tariffs and other restrictions imposed by the United States or other countries increase the price of, or limit the amount of, our products or components or materials used in our products imported into the United States or other countries, or create adverse tax consequences, the sales, cost or gross margin of our products may be adversely affected and the demand from our customers for products and services may be diminished.

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

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

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

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

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

Our commercial success will depend substantially on our ability to obtain patents and other intellectual property rights and maintain adequate legal protection for our products in the United States and other countries. We will be able to protect our intellectual property from unauthorized use by third parties only to the extent that these assets are covered by valid and enforceable patents, trademarks, copyrights or other intellectual property rights, or are effectively maintained as trade secrets. As of the date of this filing, we have 194 issued U.S. and foreign patents and 178 pending U.S. and foreign patent applications. We apply for patents covering our products, services, technologies and designs, as we deem appropriate. We may fail to apply for patents on important products, services, technologies or designs in a timely fashion, or at all. We do not know whether any of our patent applications will result in the issuance of any patents. Even if patents are issued, they may not be sufficient to protect our products, services, technologies, or designs. Our existing and future patents may not be sufficiently broad to prevent others from developing competing products, services technologies, or designs. Intellectual property protection and patent rights outside of the United States are even less predictable. As a result, the validity and enforceability of patents cannot be predicted with certainty.

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

Human Capital Resources

As of December 31, 2023, our consolidated business employed just under 100 individuals. Our management and professional employees have significant prior experience in optical design, mechanical design, software, electronics, manufacturing, and other related technologies. Our employees are in the U.S., Europe and Japan and the laws regarding employee relationships are different by jurisdiction. Some non-US employees are full-time contractors. None of our employees are covered by a collective bargaining agreement. We have policies to prevent discrimination based on gender, race, ethnicity, nationality, religion, sexual orientation, gender identity or gender expression. We take affirmative action to ensure that applicants are hired, and that employees are treated during employment without regard to their race, ethnicity, religion, sex, or national origin. We also take affirmative action to employ and advance veterans in employment. We consider relations with our employees to be good.

We have adopted a Code of Business Conduct and Ethics regarding the standards of conduct of our directors, officers and employees. The code is reviewed and updated periodically by our Board of Directors and is available on our website at www.vuzix.com.

Environmental, Social & Governance (ESG) Initiatives

We strive to create and maintain a working environment that fosters honesty and hard work and rewards all of our employees' hard work. We endeavor to make Vuzix a place in which people are proud to be associated. With the growing awareness of environmental and social issues, we are in the process of creating a more formalized ESG strategy. Our initial process for the strategy creation includes soon forming a cross-functional ESG team of leaders representing operations, human resources, supply chain, finance, marketing, and facilities departments. We will also utilize third-party facility, environmental and legal consulting services, as necessary. These third-party consultants will be assisting us in creating an ESG materiality assessment from which we can develop a baseline assessment for monitoring our progress. Our progress in creating our ESG strategy and other related activities is reported to the Board of Directors.

We provide recurring Company-wide communication of our formal values:

Integrity	Team	Customers
Uphold Ethical Standards in Our Performance	Treat Everyone with Respect	Quality Customer Service Through Collaborative Success
Keep Our Commitments	Encourage Open Communication	Provide Industry Leading Products
Protect Our Intellectual Property	Promote Critical Thinking and Innovation	Maintain Confidentiality and Protect Customer Intellectual Property

For additional information, see "Item 1 – Business: Human Capital Resources” in this Form 10-K.

We strive to create a workplace based on the following principles and goals:

Care for Our People

● We believe in upholding the principles of human rights, worker safety, and observing fair labor practices within our organization.

● We respect different viewpoints and perspectives, and ultimately individual thoughts create innovation and achieve better results. We continually evaluate how we provide organizational training, formalize Company values, and revitalize recruitment strategy.

● We are committed to employee safety. We have installed safety protocols and monitoring systems. We have periodic audits by third parties to test our systems and perform preventative maintenance. Our policies prohibit an employee from being alone in our production facilities or in unsupervised areas of our facilities.

Environmental Responsibility

● We are committed to protecting the natural environment and our community by complying with all applicable legal and regulatory requirements. We maintain an environmental management system and a specific framework for implementing relevant sustainable practices.

● We ask our employees to help us contribute towards environmental sustainability by looking for opportunities to conserve energy, reduce consumption of natural resources, preserve air and water quality, manage waste properly, reuse and recycle, and reduce the use of toxic substances in our operations where possible, including, in particular, in our clean room and lab facilities. Our clean room facility emissions are less than permitting and reporting thresholds, and we track emissions monthly to verify compliance with the regulations.

● We look for ways to reduce energy consumption in our facilities.

● We make and sell products that are generally considered more environmentally friendly than alternative computing devices and in most of their actual use by customers reduce their travel needs, either locally or across the world with their remote presence capabilities, and consume significantly less power or raw materials to manufacture than are typically used or required for laptop or tablet computers.

Ethics & Corporate Responsibility

● We are committed to ensuring ethical organizational governance and embracing diversity and inclusion in the board room and throughout the organization.

● We are committed to observing fair, transparent, and accountable operating practices.

● We seek to create and foster a healthy, balanced, and ethical work environment for everyone in our organization. To this end, we promote an ethical organizational culture and encourage all employees to raise questions or concerns about actual or potential ethical issues and Company policies and to offer suggestions about how we can make our organization better. We have a Whistleblower Ethics Hotline that includes global telephone access and online access. We have an independent third party periodically test the Whistleblower Ethics Hotline.

Supply Chain Responsibility

● We intend to request that our suppliers adhere to the RBA Code of Conduct or its equivalent by flowing this requirement through our commercial contracts.

Item 1B. ***Unresolved Staff Comments***

None.

Item 1C. ***Cybersecurity***

As a Company selling some products and performing engineering services for defense applications, we may be the target of cyber-attacks from a variety of threat actors. Cybersecurity threats include attacks on, or other attempts to infiltrate, our information technology (IT) infrastructure and the IT infrastructure of our customers, suppliers, subcontractors and other third parties, attempting to gain unauthorized access to our confidential or other proprietary information, classified information, or information relating to our employees, customers, and other third parties, or to disrupt our systems or the systems of our customers, suppliers, subcontractors, and other third parties. Cybersecurity threats also include attempts to infiltrate our products or services, including attacks targeting the security, confidentiality, integrity and/or availability of the hardware, software and information installed, stored or transmitted in our products, including after the purchase of those products and when they are incorporated into third-party products, facilities, or infrastructure.

Our Cybersecurity Program

Our products and services are normally classified as EAR 99 (items not designated under the control) by the U.S. government, but our defense customers may ask us to make some alterations for the environments in which the products will be used. Moreover, our products sold for defense applications are integrated with our customers' products. Given the nature of our business and the cybersecurity risks we face, we have instituted a cybersecurity program for identifying, assessing, and managing cybersecurity risks, which include material risks from cybersecurity threats to our internal systems, our products, services and programs for customers, and our supply chain.

Our enterprise cybersecurity program aligns with the National Institute of Standards and Technology Cybersecurity Framework (NIST CSF) standards, among others. The program includes processes and controls for the deployment of new IT systems by the Company and controls over new and existing system operations. We, or third parties we contract with, monitor and conduct regular testing of these controls and systems, including vulnerability management through active discovery and testing to regularly assess patching and configuration status. In addition, we require our employees to complete annual cybersecurity training, and we regularly conduct simulated phishing and cyber-related communications.

Incident Response.

Our cybersecurity program includes monitoring for potential security threats that may lead to vulnerabilities. We evaluate and assign severity levels to incidents, escalate and engage an incident response team based on severity, and manage and mitigate the related risks. Incidents are reported internally to members of senior management and/or the Board of Directors as appropriate based on severity and incident type and are also analyzed for external reporting requirements. Our incident response process is also designed to coordinate functions to enable continuity of essential business operation in the event of a cyber crisis.

Third Party Service Providers.

We engage third party service providers to expand the capabilities and capacity of our cybersecurity program, including for design, monitoring and testing of the program's risk prevention and protection measures, and process execution including incident detection, investigation, analysis and response, eradication, and recovery. Our main external service provider is US-based and utilizes a 24 x 7 x 365 Service Operation Center (SOC).

Program Assessment.

We regularly evaluate and seek to improve and mature our cybersecurity processes. Our cybersecurity program is regularly assessed through management self-evaluation and ongoing monitoring procedures to evaluate our program effectiveness, including assessments associated with internal controls over financial reporting as well as vulnerability management through active discovery and testing to validate patching and configuration. As cybersecurity threats are continuously evolving, we also periodically engage with third parties to perform maturity assessments of our program to identify potential risk areas and improvement opportunities. This includes assessment of our overall program, policies and processes, compliance with regulatory requirements and an overall assessment of key vulnerabilities. We use these assessments to supplement our own evaluation of the overall health of our program and target improvement areas.

Board Oversight and Management's Role

Our Board of Directors has primary oversight responsibility for enterprise cybersecurity risks. The Audit Committee also considers enterprise cybersecurity risks in connection with its financial and compliance risk oversight role. The Chief Financial Officer regularly reports to the Board of Directors on the status of the Company's cybersecurity program and provides the Board of Directors with the annual assessment by a third party on the Company's cybersecurity program. Cybersecurity risks are also included with the Company's annual business risk assessment which is provided to the Board of Directors.

For more information on risks related to cybersecurity, see Item IA. "Risk Factors" of this Form 10-K.

Item 2. *Properties*

We lease approximately 39,000 square feet as our main facility at 25 Hendrix Road, West Henrietta, New York, 14586 (a suburb of Rochester). This facility houses our headquarters office, R&D and manufacturing space under an operating lease for the facility that we began occupying in October 2015. In October 2022, we leased an additional 12,000 square feet for our new waveguide manufacturing facility at 30 Becker Road, also in West Henrietta, New York. The base rent contractual payment obligations under these operating leases is currently $570,000 per year. The lease at 25 Hendrix Road has an original five-year term with an option by the Company to renew for two additional three-year terms at pre-agreed to lease rates. As of June 25, 2020, the Company exercised the first of the two renewal terms and on January 16, 2024 the Company exercised its second renewal term extending its current lease to November 30, 2025. The lease at 30 Becker Road has an original three-year term with an option by the Company to renew for two additional one-year terms at pre-agreed to lease rates. We believe that our West Henrietta facilities are in good operating condition and currently adequately serve our needs.

In Tokyo, Japan, we rent 577 square feet of office space at a cost of approximately $85,000 per year. We lease this location pursuant to a renewable one-year lease which expired on February 28, 2022 and is currently on a month-to-month basis.

Item 3. *Legal Proceedings*

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

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

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

Holders of Record

As of April 15, 2024, there were 64 holders of record of our common stock. A substantially greater number of holders of the Company's common stock are in "street name" or beneficial holders whose shares are held by banks, brokers and other financial institutions.

Issuer Purchases of Equity Securities

We did not purchase equity securities that are registered under Section 12 of the Exchange Act during the three months ended December 31, 2023.

Unregistered Sales of Equity Securities and Use of Proceeds

Sales of Unregistered Securities - none

Purchase of Equity Securities - none

Equity Compensation Plan Information

The following table provides information about our equity compensation plan as of December 31, 2023.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance (1)
Equity compensation plans approved by security holders	8,695,308	$ 12.64	3,849,804
Equity compensation plans not approved by security holders	—	—	—
Total	8,695,308	$ 12.64	3,849,804

(1) The amount appearing under "Number of securities remaining available for future issuance" includes shares available under the Company's 2023 Equity Incentive Plan (the "2023 Plan"). The Company's 2023 Plan was approved by the stockholders of the Company on June 15, 2023. The Company no longer issues any options under its prior 2014 Plan. The 2023 Plan no longer contains an "evergreen provision". Refer to Note 14 for further details.

Item 6. [Reserved]

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

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

Overview

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

With respect to our Smart Glasses and AR products, we are focused on the enterprise, defense, industrial, medical and commercial markets. All of the mobile display and mobile electronics markets in which we compete have been subject to rapid technological change over the last decade including the rapid adoption of tablets, larger screen sizes and display resolutions along with declining prices on mobile phones and other computing devices, and as a result we must continue to improve our products' performance and lower our costs. We believe our technology, intellectual property portfolio and position in the marketplace give us a leadership position in AR and Smart Glasses products, waveguide optics, microLEDs and display engine technology.

Critical Accounting Policies and Significant Developments and Estimates

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

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

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

- Valuation of inventories;

- Going Concern
- Variable interest entities;
- Carrying value of long-lived assets, goodwill and other intangible assets;
- Software development costs;
- Revenue recognition;
- Product warranty;
- Stock-based compensation; and
- Income taxes.

Valuation of Inventories

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

The write-down and obsolescence provision for finished goods and components totaled $4,358,062, $290,405 and $519,950 for the years ended December 31, 2023, 2022 and 2021, respectively. These provisions are included in Cost of Sales on the Consolidated Statements of Operations.

Going Concern

For all annual and interim periods, management will assess going concern uncertainty in our consolidated financial statements to determine whether there is sufficient cash on hand and working capital, including available borrowings on loans, to operate for a period of at least one year from the date the consolidated financial statements are issued or available to be issued, which is referred to as the "look-forward period", as defined in U.S. GAAP. As part of this assessment, based on conditions that are known and reasonably knowable to management, management will consider various scenarios, forecasts, projections, estimates and will make certain key assumptions. These assumptions including among other factors, the expected timing and nature of our programs and projected cash expenditures, our ability to delay or curtail these expenditures or programs and our ability to raise additional capital, if necessary, to the extent management has the proper authority to execute them and considers it probable that those implementations can be achieved within the look-forward period.

The accompanying consolidated financial statements have been prepared assuming that the Company 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 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 net losses of $50,149,077 for the year ended December 31, 2023, $40,763,573 for the year ended December 31, 2022, and $40,377,160 for the year ended December 31, 2021. The Company had net cash outflows from operations of $26,277,824 for the year ended December 31, 2023, $24,521,082 for the year ended December 31, 2022, and $26,980,411 for the year ended December 31, 2021, respectively. As of December 31, 2023, the Company had an accumulated deficit of $293,984,793. The Company's cash outflows for investing activities was $19,280,966 for the year ended December 31, 2023, $21,170,816 for the year ended December 31, 2022, and $4,852,452 for the year ended December 31, 2021.

These factors initially raise substantial doubt about the Company's ability to continue as a going concern. Management's plans to alleviate the conditions that raise substantial doubt include operational improvements being implemented and the curtailment of certain development programs, both of which the Company expects to preserve cash.

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014- 15, Presentation of Financial Statements — Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. As a result, management is primarily responsible for assessing if there is a going concern issue when issuing an entity's financial statements. The going concern assumption underlies all GAAP financial reporting and therefore requires and assumes that the financial statements have been prepared on a going concern basis. It presumes that a Company will continue normal business operations into the future.

Variable Interest Entities

We determine at the inception of each arrangement whether an entity in which we have made an investment or in which we have other variable interests is considered a variable interest entity (VIE). We consolidate VIEs when we are the primary beneficiary. We are the primary beneficiary of a VIE when we have the power to direct activities that most significantly affect the economic performance of the VIE and have the obligation to absorb the majority of their losses or benefits. If we are not the primary beneficiary in a VIE, we account for the investment or other variable interests in a VIE in accordance with other applicable GAAP. Each reporting period we assess whether any changes in our interest or relationship with the entity affect our determination of whether the entity is a VIE and, if so, whether we are the primary beneficiary.

Carrying Value of Long-Lived Assets

If facts and circumstances indicate that a long-lived asset, including a products' mold tooling and equipment, may be impaired, the carrying value is reviewed in accordance with FASB ASC Topic 360-10 *Accounting for the Impairment or Disposal of Long-Lived Assets*. If this review indicates that the carrying value of the asset will not be recovered as determined based on projected undiscounted cash flows related to the asset over its remaining life, the carrying value of the asset is reduced to its estimated fair value. Impairment losses are dependent on a number of factors such as general economic trends and major technology advances, and thus could be significantly different from historical results. For the years ended December 31, 2023, 2022 and 2021, we recorded a loss on fixed asset disposal of nil, $35,350, and $183,614, respectively, upon the retirement of certain tooling and manufacturing equipment assets no longer in use.

We perform a valuation of our patents and trademark assets when events or circumstances indicate their carrying amounts may be unrecoverable. For the years ended December 31, 2023, 2022 and 2021, there was an impairment charge of $41,869, $97,675 and $80,163, respectively. The value of the remaining intellectual property, such as patents and trademarks, was valued (net of accumulated amortization) at $2,627,018 as of December 31, 2023, because management believes that this value is recoverable.

We perform a valuation of our goodwill and other intangible assets for impairment at least annually, or more frequently if events or changes in circumstances indicate a potential impairment trigger. For there ending December 31, 2023, the Company took an impairment charge of $2,136,993 for the unamortized intangible assets and goodwill regarding its previous acquisition of Moviynt.

Software Development Costs

The Company capitalizes the costs of obtaining and developing its software once technological feasibility has been determined by management or of purchased software solutions when placed into service. Such costs are accumulated and capitalized. These projects could take several years to complete. The capitalized costs are then amortized over 3 years on a straight-line basis. Unsuccessful or discontinued software projects are written off and expensed in the fiscal period where the application is abandoned or discontinued. The unamortized software development costs remaining were valued (net of accumulated amortization) at $361,111 as of December 31, 2023. Management believes that this value is recoverable.

Revenue Recognition

The Company adopted the guidance on Revenue from Contracts with Customers under FASB ASC Topic 606, “Revenue from Contracts with Customers”, as of January 1, 2018. Product sales represent the majority of the Company’s revenue. The Company recognizes revenue from these product sales as performance obligations are satisfied and transfer of control to the customer has occurred, typically upon physical shipment. Revenue is recognized in the amount that the Company expects to receive in exchange from the sale of our products. FOB shipping point is our standard shipping term and revenue is recognized as our products ship to customers, as control is transferred at that time. All of our standard product sales include a 30-day money back guarantee and expected returns are estimated at each reporting period date and a portion of revenue is deferred for all estimated returns. As of December 31, 2023 and 2022, deferred revenue associated with our expected returns was immaterial. The Company collects and remits sales taxes in certain jurisdictions and reports revenue net of any associated sales taxes.

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

Product Warranty

Warranty obligations are generally incurred in connection with the sale of our products. The warranty period for these products is generally one year and up to eighteen (18) months for certain distributors. Customers may also purchase an additional twelve (12) month extended warranty. Warranty costs are accrued, to the extent that they are not recoverable from third-party manufacturers, for the estimated cost to repair or replace products for the balance of the warranty periods. We provide for the costs of expected future warranty claims at the time of product shipment or over-builds to cover replacements. The adequacy of the provision is assessed at each quarter end and is based on historical experience of warranty claims and costs. The costs incurred to provide for these warranty obligations are estimated and recorded as an accrued liability at the time of sale. Future warranty costs are estimated based on historical performance rates and related costs to repair given products. The accounting estimate related to product warranty is considered a “critical accounting estimate” because judgment is exercised in determining future estimated warranty costs. Should actual performance rates or repair costs differ from estimates, revision to the estimated warranty liability would be required.

Stock-Based Compensation Expense

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

Income Taxes

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

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

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

Refer to Note 1

Results of Operations for Fiscal Years Ended December 31, 2023 and December 31, 2022

The following table compares the Company's consolidated statements of operations data for the years ended December 31, 2023 and 2022.

	Year Ended December 31,			
	2023	2022	Dollar Change	% Increase (Decrease)
Sales:				
Sales of Products	$ 10,760,352	$ 10,505,763	$ 254,589	2 %
Sales of Engineering Services	1,368,787	1,330,119	38,668	3 %
Total Sales	12,129,139	11,835,882	293,257	2 %
Cost of Sales:				
Cost of Sales - Products Sold	8,839,279	8,737,852	101,427	1 %
Cost of Sales - Inventory Reserve for Obsolescence	4,358,062	290,405	4,067,657	1,401 %
Cost of Sales - Depreciation and Amortization	886,117	799,317	86,800	11 %
Cost of Sales - Engineering Services	680,411	525,182	155,229	30 %
Total Cost of Sales	14,763,869	10,352,756	4,411,113	43 %
Gross Profit (Loss)	(2,634,730)	1,483,126	(4,117,856)	(278)%
Gross Profit (Loss) %	(22)%	13 %		
Operating Expenses:				
Research and Development	12,339,534	12,676,688	(337,154)	(3)%
Selling and Marketing	12,711,800	8,078,538	4,633,262	57 %
General and Administrative	18,592,185	21,038,562	(2,446,377)	(12)%
Depreciation and Amortization	3,844,428	1,788,584	2,055,844	115 %
Loss on Goodwill and Other Intangible Asset Impairment	2,136,993	—	2,136,993	NM
Loss on Fixed Asset Disposal	—	35,350	(35,350)	(100)%
Impairment of Patents and Trademarks	41,869	97,675	(55,806)	(57)%
Loss from Operations	(52,301,539)	(42,232,271)	(10,069,268)	24 %
Other Income (Expense):				
Investment Income	2,219,226	1,395,579	823,647	59 %
Income and Other Taxes	(230,973)	(212,997)	(17,976)	8 %
Foreign Exchange Loss	(44,062)	(180,589)	136,527	(76)%
Utility Improvement Refund/Employee Retention Credit Refund	208,271	466,705	(258,434)	(55)
Total Other Income, Net	2,152,462	1,468,698	683,764	47 %
Net Loss	$ (50,149,077)	$ (40,763,573)	$ (9,385,504)	23 %

Sales. There was an increase in total sales for the year ended December 31, 2023, from those achieved in 2022 of $293,257, or 2%. The following table reflects the major components of our sales:

	Year Ended December 31, 2023	% of Total Sales	Year Ended December 31, 2022	% of Total Sales	Dollar Change	% Increase (Decrease)
Sales of Products	$ 10,760,352	89 %	$ 10,505,763	89 %	$ 254,589	2 %
Sales of Engineering Services	1,368,787	11 %	1,330,119	11 %	38,668	3 %
Total Sales	$ 12,129,139	100 %	$ 11,835,882	100 %	$ 293,257	2 %

Sales of products increased by 2% for the year ended December 31, 2023, compared to the same period in 2022. Smart glasses revenue was the primary driver of this increase as unit sales of our M400 product increased.

Sales of engineering services for the year ended December 31, 2023, were $1,368,787, as compared to $1,330,119 in the same period of 2022, an increase of 3%.

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

	Year Ended December 31, 2023	% of Total Sales	Year Ended December 31, 2022	% of Total Sales	Dollar Change	% Increase (Decrease)
Product Cost of Sales	$ 7,224,107	60 %	$ 7,158,225	60 %	$ 65,882	1 %
Inventory Reserve for Obsolescence	4,358,062	36 %	290,405	2 %	4,067,657	1,401 %
Manufacturing Overhead - Unapplied	1,615,172	13 %	1,579,627	13 %	35,545	2 %
Depreciation and Amortization	886,117	7 %	799,317	7 %	86,800	11 %
Engineering Services Cost of Sales	680,411	6 %	525,182	4 %	155,229	30 %
Total Cost of Sales	14,763,869	122 %	10,352,756	87 %	4,411,113	43 %
Gross Profit (Loss)	$ (2,634,730)	(22)%	$ 1,483,126	13 %	$ (4,117,856)	(278)%

For the year ended December 31, 2023, gross loss from total sales was $2,634,730, or (22)% as compared to a gross profit of $1,483,126, or 13% in the same period in 2022. Product Cost of Sales was $7,224,107, or 60% of total sales in 2023 as compared to $7,158,225, or 60% of 2022 total sales.

In addition to its normal Reserve for Obsolescence provision, the Company reserved as of December 31, 2023 additional provisions for expected surplus component parts and obsolescence in excess of its currently planned existing product builds in 2024 and into 2025 on most of its existing smart glass product models in anticipation of the planned introduction of newer models, which would logically replace the existing models when introduced. The disposal value of the excess components that could not be used in future models is unknown, so a 100% obsolescence provision has been accrued. The total reserve write-down recorded at December 31, 2023 was $2,700,000 and the Company increased its standard reserve by $1,658,000. The write-down and obsolescence provisions totaled $5,775,551 and $1,417,489 for the years ended December 31, 2023 and 2022, respectively. These provisions were included in Cost of Sales on the Consolidated Statements of Operations.

Manufacturing overhead costs, not already added in Cost of Sales or ending inventory, increased by $35,545, or 2% for the year ended December 31, 2023 over the 2022 comparable period to 13% as a percentage of total sales as compared to 13% in 2022.

Depreciation and amortization expense increased by $86,800, or 11% for the year ended December 31, 2023, over the 2022 comparable period to 7% as a percentage of total sales as compared to 7% in 2022. The increase was due to depreciation on capitalized equipment for our new waveguide facility that was placed into service in the fourth quarter of 2023.

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

	Year Ended December 31, 2023	% of Total Sales	Year Ended December 31, 2022	% of Total Sales	Dollar Change	% Increase (Decrease)
Research and Development	$ 12,339,534	102 %	$ 12,676,688	107 %	$ (337,154)	(3)%

Research and development expenses for the year ended December 31, 2023, decreased by $337,154, or 3%, compared to the comparable period in 2022. This decrease was largely due to a $923,933 reduction in external development expenses and consultant expenses; and a decrease of $136,186 in recruiting and hiring expenses; partially offset by an increase of $789,186 in salary and benefits related expenses, including $422,051 in severance-related expenses for staff reductions which took place in early January 2024.

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

	Year Ended December 31, 2023	% of Total Sales	Year Ended December 31, 2022	% of Total Sales	Dollar Change	% Increase (Decrease)
Selling and Marketing	$ 12,711,800	105 %	$ 8,078,538	68 %	$ 4,633,262	57 %

Selling and marketing expenses for the year ended December 31, 2023, increased by $4,633,262 or 57%, compared to the comparable period in 2022. This increase was largely due to a $2,117,503 increase in salary, commissions and benefits related expenses driven by headcount increases, including $265,101 in severance related expenses for staff reductions which took place in early January 2024; a reserve for bad debt of $1,574,000; an increase of $610,845 in advertising and tradeshow expenses; an increase of $322,071 in travel related expenses; and an increase of $167,794 in consulting fees; partially offset by a decrease of $121,835 in website development and maintenance costs; and a decrease of $101,001 in recruiting and hiring expenses for new hires in the latter part of 2022.

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

	Year Ended December 31, 2023	% of Total Sales	Year Ended December 31, 2022	% of Total Sales	Dollar Change	% Increase (Decrease)
General and Administrative	$ 18,592,185	153 %	$ 21,038,562	178 %	$ (2,446,377)	(12)%

General and administrative expenses for the year ended December 31, 2023 decreased by $2,446,377, or 12% compared to the comparable period in 2022. This decrease was largely due to a decrease of $2,464,799 in non-cash stock-based compensation; a decrease of $210,678 in external accounting, advisory and tax services expenses; a decrease of $199,456 in shareholder and IR related expenses; a $91,254 decrease in supplies and consumables expenses; and a $56,807 decrease in recruiting and hiring expenses; partially offset by an increase of $281,363 in various consulting fees; an increase of $128,949 in travel related expenses; and an increase of $88,804 in insurance premiums.

Depreciation and Amortization. Depreciation and amortization expense, not included in cost of sales, for the year ended December 31, 2023, was $3,844,428, compared to $1,788,584 in the comparable period in 2022, an increase of $2,055,844. The increase in this expense is primarily due to the amortization of our technology license related to the Atomistic Agreements, which began on May 12, 2022.

Other Income (Expense), Net. Total other income was $2,152,462 for the year ended December 31, 2023, as compared to $1,468,698 in the same period in 2022, an increase of $683,764. This overall increase was primarily the result of an increase of $823,647 in investment income resulting from the recent rise in interest rates earned on the Company's excess cash period-over-period; and decrease of $136,527 in foreign exchange losses; partially offset by a $258,434 reduction in government and utility incentives, primarily related to the employee retention refunds received in 2022.

Provision for Income Taxes. There were no provisions for income taxes in 2023 or 2022.

Results of Operations for Fiscal Years Ended December 31, 2022 and December 31, 2021

The following table compares the Company's consolidated statements of operations data for the years ended December 31, 2022 and 2021.

	Year Ended December 31,			
	2022	2021	Dollar Change	% Increase (Decrease)
Sales:				
Sales of Products	$ 10,505,763	$ 12,784,600	$ (2,278,837)	(18)%
Sales of Engineering Services	1,330,119	380,333	949,786	250 %
Total Sales	11,835,882	13,164,933	(1,329,051)	(10)%
Cost of Sales:				
Cost of Sales - Products Sold	8,737,852	9,709,268	(971,416)	(10)%
Cost of Sales - Inventory Reserve for Obsolescence	290,405	519,950	(229,545)	(44)%
Cost of Sales - Depreciation and Amortization	799,317	1,321,467	(522,150)	(40)%
Cost of Sales - Engineering Services	525,182	45,758	479,424	1,048 %
Total Cost of Sales	10,352,756	11,596,443	(1,243,687)	(11)%
Gross Profit	1,483,126	1,568,490	(85,364)	(5)%
Gross Profit %	13 %	12 %		
Operating Expenses:				
Research and Development	12,676,688	11,674,954	1,001,734	9 %
Selling and Marketing	8,078,538	6,118,929	1,959,609	32 %
General and Administrative	21,038,562	22,502,833	(1,464,271)	(7)%
Depreciation and Amortization	1,788,584	988,104	800,480	81 %
Loss on Fixed Asset Disposal	35,350	183,614	(148,264)	(81)%
Impairment of Patents and Trademarks	97,675	80,163	17,512	22 %
Loss from Operations	(42,232,271)	(39,980,107)	(2,252,164)	6 %
Other Income (Expense):				
Investment Income	1,395,579	53,511	1,342,068	2,508 %
Income and Other Taxes	(212,997)	(307,368)	94,371	(31)%
Foreign Exchange Loss	(180,589)	(143,196)	(37,393)	26 %
Employee Retention Credit Refund	466,705	—	466,705	NM
Total Other Income (Expense), Net	1,468,698	(397,053)	1,865,751	(470)%
Net Loss	$ (40,763,573)	$ (40,377,160)	$ (386,413)	1 %

Sales. There was a decrease in total sales for the year ended December 31, 2022, from those achieved in 2021 of $1,329,051 or 10%. The following table reflects the major components of our sales:

	Year Ended December 31, 2022	% of Total Sales	Year Ended December 31, 2021	% of Total Sales	Dollar Change	% Increase (Decrease)
Sales of Products	$ 10,505,763	89 %	$ 12,784,600	97 %	$ (2,278,837)	(18)%
Sales of Engineering Services	1,330,119	11 %	380,333	3 %	949,786	250 %
Total Sales	$ 11,835,882	100 %	$ 13,164,933	100 %	$ (1,329,051)	(10)%

Sales of products decreased by 18% for the year ended December 31, 2022, compared to the same period in 2021. Smart glasses revenues declined primarily due to a combination of higher average sales discounts due to larger volume reseller sales, negative foreign exchange comparatives and to a lesser extent, a decrease in overall unit sales. Sales of waveguides and display engines for our engineering services customers included in product sales rose by $394,150 for the year ended December 31, 2022, as compared to the same period in 2021.

Sales of engineering services for the year ended December 31, 2022, were $1,330,119, as compared to $380,333 in the same period of 2021, an increase of 250%.

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

	Year Ended December 31, 2022	% of Total Sales	Year Ended December 31, 2021	% of Total Sales	Dollar Change	% Increase (Decrease)
Product Cost of Sales	$ 7,448,630	63 %	$ 7,832,397	59 %	$ (383,767)	(5)%
Manufacturing Overhead - Unapplied	1,579,627	13 %	2,396,821	18 %	(817,194)	(34)%
Depreciation and Amortization	799,317	7 %	1,321,467	10 %	(522,150)	(40)%
Engineering Services Cost of Sales	525,756	4 %	45,758	0 %	479,424	1,048 %
Total Cost of Sales	10,352,756	87 %	11,596,443	88 %	(1,243,687)	(11)%
Gross Profit	$ 1,483,126	13 %	$ 1,568,490	12 %	$ (85,364)	(5)%

For the year ended December 31, 2022 gross profit from total sales was $1,483,126 or 13% as compared to $1,568,490, or 12% in the same period in 2021.

Manufacturing overhead costs, not already added in Cost of Sales, decreased by $817,194 or 34% for the year ended December 31, 2022 over the 2021 comparable period to 13% as a percentage of total sales as compared to 18% in 2021. The decrease in the net dollar amount of these unapplied overhead costs in the current period versus the prior period is primarily due to more absorption of fixed costs being allocated directly to Product Cost of Sales and inventory.

Depreciation and amortization expense decreased by $522,150, or 40% for the year ended December 31, 2022, over the 2021 comparable period to 7% as a percentage of total sales as compared to 10% in 2021. The decrease was due to some of our tooling and manufacturing equipment becoming fully-depreciated in the first half of 2022.

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

	Year Ended December 31, 2022	% of Total Sales	Year Ended December 31, 2021	% of Total Sales	Dollar Change	% Increase (Decrease)
Research and Development	$ 12,676,688	107 %	$ 11,674,954	89 %	$ 1,001,734	9 %

Research and development expenses for the year ended December 31, 2022, increased by $1,001,734 or 9%, as compared to the same period in 2021. This increase was largely due to an increase of $557,165 in external development expenses related to our Next Generation Smart Glasses (Shield) and Blade 2.0; a $386,821 increase in salary and benefits expenses due to additional personnel; an increase of $78,920 in technology licensing fees; and an increase of $84,300 in recruitment and hiring fees, and partially offset by a decrease of $147,843 in supplies and consumables expense.

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

	Year Ended December 31, 2022	% of Total Sales	Year Ended December 31, 2021	% of Total Sales	Dollar Change	% Increase (Decrease)
Selling and Marketing	$ 8,078,538	68 %	$ 6,118,929	46 %	$ 1,959,609	32 %

Selling and marketing expenses for the year ended December 31, 2022, increased by $1,959,609 or 32%, as compared to the same period in 2021. This increase was largely due to a $1,685,428 increase in salary and salary benefits related expense; an increase of $368,018 in travel related expenses; an increase of $360,034 in trade show expenses; an increase of $117,423 in recruiting and hiring expenses; and a $47,794 increase in advertising costs; and partially offset by a decrease of $441,585 in website development and maintenance costs; and a $196,478 decrease for consulting costs.

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

	Year Ended December 31, 2022	% of Total Sales	Year Ended December 31, 2021	% of Total Sales	Dollar Change	% Increase (Decrease)
General and Administrative	$ 21,038,562	178 %	$ 22,502,833	171 %	$ (1,464,271)	(7)%

General and administrative expenses for the year ended December 31, 2022 decreased by $1,464,271 or 7%, as compared to the same period in 2021. This decrease was largely due to a $1,259,137 decrease in non-cash stock-based compensation which was significantly higher in the first quarter of 2021 due to the vesting of an achieved equity market capitalization milestone under the LTIP; a $515,952 decrease in legal expenses; a $89,262 decrease in recruitment and hiring expenses related to new external board members who joined the Board of Directors in June 2021; and partially offset by increases in audit and tax advisory fees of $261,958, and insurance premiums of $209,528.

Depreciation and Amortization. Depreciation and amortization expense, not included in Cost of Sales, for the year ended December 31, 2022 was $1,788,584 as compared to $988,104 in the same period in 2021, an increase of $800,480. The increase in depreciation and amortization expense is primarily due to the amortization of our technology license related to the Atomistic Agreements which began on May 12, 2022.

Other Income (Expense), Net. Total other income was $1,468,698 for the year ended December 31, 2022, as compared to other expense of $397,053 in the same period in 2021, an increase of $1,865,751. The overall increase in other income was primarily the result of an increase of $1,342,068 in investment income resulting from the recent rise in interest rates earned on the Company's excess cash period-over-period; a $466,705 gain recorded for an employee retention credit refund claim that was filed with the IRS on November 10, 2022; and a decrease of $94,371 in income and other taxes, partially offset by an increase of $37,393 in foreign exchange losses.

Provision for Income Taxes. There were no provisions for income taxes in 2022 or 2021.

Liquidity and Capital Resources

Capital Resources: As of December 31, 2023, we had cash and cash equivalents of $26,555,592, a decrease of $46,008,351 from $72,563,943 as of December 31, 2022.

As of December 31, 2023, we had current assets of $41,500,411 as compared to current liabilities of $5,216,152, which resulted in a positive working capital position of $36,284,259. As of December 31, 2022, we had a working capital position of $75,354,727. Our current liabilities are comprised principally of accounts payable, accrued expenses, licensing fee commitments, and operating lease right-of-use liabilities.

Summary of Cash Flow:

The following table summarizes our select cash flows for the years ended:

	December 31, 2023	December 31, 2022	December 31, 2021
Net Cash Provided by (used in)			
Operating Activities	(26,277,824)	(24,521,082)	(26,980,411)
Investing Activities	(19,280,966)	(21,170,816)	(4,852,452)
Financing Activities	(449,561)	(1,948,032)	115,967,228

During the year ended December 31, 2023, we used $26,277,824 of cash for operating activities. Net changes in working capital items were $1,882,446 for the year ended December 31, 2023, with the largest factors resulting from a $1,480,923 increase in trade accounts receivable, net of reserve, and accrued revenue in excess of billings; a $1,495,653 decrease in inventory and vendor prepayments; and a $1,104,787 decrease in trade accounts payable and accrued expenses. For the year ended December 31, 2022, we used a total of $24,521,082 in cash for operating activities.

During the year ended December 31, 2023, we used $19,280,966 of cash for investing activities, which included $10,500,000 in further payments made towards our technology license fee commitment with Atomistic, as discussed in Note 7, $5,323,483 for purchases of manufacturing equipment and leasehold improvement expenditures primarily related to our waveguide expansion project; a $2,500,000 investment in preferred shares of Atomistic, as discussed in Note 2; $632,483 in patent and trademark expenditures; a further investment of $125,000 in the purchase of software operating license upgrades for our smart glasses platform; and an additional $200,000 of investments in private corporations as discussed in Note 9. For the year ended December 31, 2022, we used a total of $21,170,816 in cash for investing activities.

During the year ended December 31, 2023, we used $449,561 in net cash from financing activities, which included $21,196 received for stock option exercises, which was offset by $470,757 expended for share repurchases under our Share Buyback Program that expired on March 2, 2023. For the year ended December 31, 2022, we used $1,948,032 in net cash for financing activities.

As of December 31, 2023, the Company does not have any current or long-term debt obligations outstanding other than licensing fee commitments totaling $1,000,000 related to the Atomistic Agreements described in Note 7 of the consolidated financial statements.

In connection with the Atomistic Technology Licenses discussed in Note 7, the is required to issue up a further maximum of 1,446,254 shares of our common stock to the founders of Atomistic SAS ("Atomistic") for the achievement of certain technological milestones under a license agreement entered into between the Company, Atomistic and its Founders. These issuances would under the existing agreements result in Vuzix owning Series A Preferred shares in

Atomistic that could ultimately be converted into ordinary shares of Atomistic and Vuzix ultimately owning over 90% of Atomistic, with Atomistic becoming a subsidiary of the Company. The remaining Milestones and the Company's related further issuances of common stock are expected to be completed over the next 6 to 24 months. Until the Company achieves a near 100% ownership in Atomistic by the issuance of Vuzix shares for the completion of all development milestones, or is permitted to waive them and accelerate the share issuances for 100% ownership of Atomistic, the Company and the current owners of Atomistic must negotiate every 12 to 24 months new funding contributions for the extension of the Company's exclusive license. As of the date of this 10-K report, we are in active negotiations with Atomistic and tentatively agreed to provide them with a further $5,000,000 commitment to be paid in 2024 for an extension of our exclusive license to its technology through December 31, 2025.

The Company's cash requirements are primarily for funding operating losses, working capital, research and development, capital expenditures, and license fee commitments. Our operations have historically been financed primarily through net proceeds from the sale of our equity securities. We incurred a net loss for the years ended December 31, 2023, 2022 and 2021 of $50,149,077 (of which $12,711,084 was related to non-cash stock-based compensation primarily due to our LTIP; $4,358,062 was related to our excess and obsolescence impairment charge to inventory; $2,136,993 was related to a goodwill and intangible impairment charge for our Moviynt acquisition in 2022; and $1,574,000 was related to a bad debt reserve), $40,763,573 (of which $15,775,553 was related to non-cash stock-based compensation primarily due to our LTIP), and $40,377,160 in 2021 (of which $17,302,833 was related to non-cash stock-based compensation primarily due to our LTIP), respectively. The Company has an accumulated deficit of $293,984,793 as of December 31, 2023.

As of December 31, 2023, our principal sources of liquidity consisted of cash and cash equivalents of $26,555,592.

The factors above do raise substantial doubt about the Company's ability to continue as a going concern. The Company's management intends to take actions necessary to continue as a going concern, as discussed below. The Company will need to grow its business significantly to become profitable and self-sustaining on a cash flow basis or it will be required to raise new equity and/or debt capital. Management's plans concerning these matters and managing our liquidity include, among other things:

- We do not intend to increase our levels of investing activities for our 2024 fiscal year as compared to 2023, now that our waveguide plant expansion has been completed and the licensed fees payments under the Atomistic License have been substantially made.
- The continued sale of our existing M400, M4000, Blade 2 and Shield smart glasses finished goods and related component inventory, of which we have significant levels over the provisions we made;
- On January 17, 2024, the Company announced that it was cutting its cash annual operating expenses approximately $8,000,000 for 2024, in all operating areas by at least 20% from 2023, including Research and Development, Sales and Marketing and in General and Administration areas;
- Right-sized operations across all areas of the Company, including head-count freezes or reductions;
- The expected margin contribution upon the commencement of volume manufacturing and sales of waveguides from our new waveguide plant in 2024, particularly to OEM customer;
- Continued to pursue licensing and strategic opportunities around our waveguide technologies with potential OEMs, which would include the receipt of upfront licensing fees and on-going supply agreements;
- Implementation of a voluntary Company-wide payroll reduction program for all individuals with optional salary reductions of 10% to 30% depending upon the respective base salary level for the period running from May 1, 2024 to April 30, 2025. The expected cash savings will be $1,200,000 and will result in the issuance of stock awards or stock options, at a rate of 150% or 200%, respectively, of the net cash wage reductions;
- Delayed or curtailed discretionary and non-essential capital expenditures not related to near-term new products;
- Reduced the rate of new product introductions and leveraged existing platforms to reduce new product development and engineering costs;
- Further reductions of the rate of research and development spending on new technologies, particularly the use of external contractors.

The Company has in the past sold equity securities and in early 2024 entered into a sales agreement with an investment banking firm for the issuance and sale of up to $50,000,000 of our common stock that may be issued and sold from time to time in an “at the market” offering. Nonetheless, management monitors the capital markets on an ongoing basis and may consider raising capital if favorable market conditions develop. If the Company’s actual results are less than projected or the Company needs to raise capital for additional liquidity, the Company may be required to do additional equity financings, reduce expenses, or enter into a strategic transaction. To the extent that current and anticipated sources of liquidity are insufficient to fund our future business activities and requirements, we may be required to seek additional equity financing. However, management can make no assurance that the Company will be able to raise additional capital, reduce expenses sufficiently, or enter into a strategic transaction on terms acceptable to the Company, or at all.

Contractual Obligations

The following is a summary of our contractual payment obligations as of December 31, 2023:

Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating Lease Obligations	$ 324,102	$ 191,120	$ 132,982	—	—
Licensing Fees Commitment	1,000,000	1,000,000	—	—	—
Open Purchase Obligations	3,569,012	3,569,012	—	—	—

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

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

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

Item 8. ***Financial Statements and Supplementary Data***

The information required by this item is incorporated herein by reference to pages 53 through 87 of this annual report and is indexed under Item 15(a)(1) and (2).

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

None.

Item 9A. ***Controls and Procedures***

The information contained in this section covers management’s evaluation of our disclosure controls and procedures and our assessment of our internal control over financial reporting as of December 31, 2023.

(a) Evaluation of Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this annual report as required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Disclosure controls and procedures are those controls and other procedures that are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is properly recorded, processed, summarized, and reported, within the time periods specified by the rules and forms promulgated by the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is properly accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As a result of this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2023, our disclosure controls and procedures were not effective because of the material weakness in internal control over financial reporting described below.

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

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

Our internal control over financial reporting includes those policies and procedures that:

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

Under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation and the effectiveness of our internal control over financial reporting as of December 31, 2023, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework (2013 framework). Based on that evaluation, our management concluded that, as of December 31, 2023, that our internal control over financial reporting was not effective.

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

Management identified the following deficiency in internal control over financial reporting as of December 31, 2023: The Company tests its goodwill and other intangible assets for impairment at least annually, or more frequently if events or changes in circumstances indicate a potential impairment trigger. In Q4 2023, the Company failed to recognize a potential triggering event in a timely manner. By not taking this triggering event into consideration, the Company failed to use the appropriate assumptions and inputs in determining the fair value of these assets. Management's identified deficiency relates to the three months ended December 31, 2023, and does not affect previously reported periods.

Remediation Activities

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

a) Retaining additional resources, including third-party resources, with the appropriate technical accounting expertise and valuation expertise to be able to assist us in identifying and addressing any complex technical accounting issues that affect our consolidated financial statements.

b) We will report regularly to the Company's Audit Committee on the progress and results of our remediation plan.

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

(c) Limitations on the Effectiveness of Controls.

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

(d) Change in Internal Control Over Financial Reporting

Apart from the above material weakness, there were no other changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the three months ended December 31, 2023 that have materially affected, or are likely to materially affect, our internal control over financial reporting.

Item 9B. ***Other Information***

None.

Item 9C. ***Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.***

Not applicable.

PART III

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

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

Item 11. ***Executive Compensation***

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

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

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

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

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

Item 14. ***Principal Accountant Fees and Services***

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

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

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

(1) Financial Statements

(2) Financial Statement Schedules

Schedule II – Valuation and Qualifying Accounts

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

(3) Exhibits

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

VUZIX CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Vuzix Corporation

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of Vuzix Corporation and Subsidiaries (the Company) as of December 31, 2023 and 2022, the related consolidated statements of changes in stockholders' equity, operations, and cash flows for each of the three years in the period ended December 31, 2023, and the related notes to the consolidated financial statements and schedules (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Going Concern
The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations and has future cash requirements to fund operating losses. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

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

Estimate for excess, obsolete and slow-moving inventory reserve
Critical Audit Matter Description

As discussed in Notes 1 and 4 to the consolidated financial statements, inventories are stated at the lower of cost or net realizable value using the weighted average first-in, first-out method. The Company records provisions for excess, obsolete or slow-moving inventory based on changes in customer demand, technology developments or other economic factors. The Company's products have product life cycles that range on average from two to three years. At both the product introduction and product discontinuation stage, there is a higher degree of risk of inventory obsolescence. The excess, obsolete or slow-moving reserve serves to reduce the Company's inventory balance through a charge to cost of sales – products sold.

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

How the Critical Audit Matter Was Addressed in the Audit

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

Impairment analysis of long-lived assets
Critical Audit Matter Description

As discussed in Notes 1, 7 and 8 to the consolidated financial statements, the Company at least annually assesses all its definite lived long-lived assets and intangibles, for impairment and when events or circumstances indicate their carrying amounts may not be recoverable. The Company tests goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired.

Management determines the fair value of the respective reporting units using a discounted cash flow model. Recoverability of definite lived long-lived assets is determined using an undiscounted cash flow model. Significant estimates and judgements used in these models include internal operating and cash flow forecasts, inputs to the weighted-average cost of capital used to discount future cash flows as well as the probability of achieving future cash flows. Future revenue and operating cash flow forecasts, the development of the weighted average cost of capital used to discount the future cash flows, and the probability of achieving future cash flows are subject to judgment based on sources utilized and the assessment of risks related to the cash flows. Due to the subjectivity involved with the assumptions used to the impairment analysis of long-lived assets, we identified the analysis as a critical audit matter, which required a high degree of auditor judgment.

How the Critical Audit Matter Was Addressed in the Audit

Addressing the matter involved performing subjective procedures and evaluating audit evidence in connection with forming our overall opinion on the financial statements. The primary procedures we performed include: obtaining an understanding of the process and assumptions used by management to perform the analysis and testing management's analysis by: testing the completeness and accuracy of the source information used, testing the mathematical accuracy of management's calculations, evaluating the reasonableness and consistency of methodology and assumptions applied by management, and performing a retrospective review of the prior-year estimates used to identify potential bias of management judgements. Professionals with specialized skills and knowledge were used to assist in evaluating certain methodologies and assumptions used in the model and performing sensitivity analysis on various inputs.

/s/ Freed Maxick CPAs, P.C.

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

Buffalo, New York
April 15, 2024

VUZIX CORPORATION

CONSOLIDATED BALANCE SHEETS

	December 31, 2023	December 31, 2022
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 26,555,592	$ 72,563,943
Accounts Receivable, net of allowance for credit losses of $1,574,000 and $0 in 2023 and 2022, respectively	3,827,686	3,558,971
Accrued Revenues in Excess of Billings	165,771	269,129
Utility Improvement Refund/Employee Retention Credit Receivable	208,271	466,705
Inventories, Net	9,000,430	11,267,969
Manufacturing Vendor Prepayments	403,801	998,671
Prepaid Expenses and Other Assets	1,338,860	1,506,697
Total Current Assets	41,500,411	90,632,085
Long-Term Assets		
Fixed Assets, Net	8,072,830	3,878,505
Operating Lease Right-of-Use Asset	301,185	956,165
Patents and Trademarks, Net	2,627,018	2,220,094
Technology Licenses, Net	26,851,001	30,158,689
Intangible Asset, Net	—	675,313
Goodwill	—	1,601,400
Cost Method Investment in Atomistic	5,784,126	—
Other Assets, Net	1,011,111	950,000
Total Assets	$ 86,147,681	$ 131,072,251
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	$ 1,570,630	$ 1,211,747
Unearned Revenue	18,839	29,064
Accrued Expenses	2,416,443	1,670,539
Licensing Fees Commitment	1,000,000	11,500,000
Income and Other Taxes Payable	46,727	214,997
Operating Lease Right-of-Use Liability	163,513	651,011
Total Current Liabilities	5,216,152	15,277,358
Long-Term Liabilities		
Operating Lease Right-of-Use Liability	137,672	305,154
Total Liabilities	5,353,824	15,582,512
Stockholders' Equity		
Common Stock - $0.001 Par Value, 100,000,000 shares authorized; 65,304,780 shares issued and 64,725,108 shares outstanding as of December 31, 2023 and 63,783,779 shares issued and 63,319,107 shares outstanding as of December 31, 2022.	65,304	63,783
Additional Paid-in Capital	377,189,847	361,267,416
Accumulated Deficit	(293,984,793)	(243,835,716)
Treasury Stock, at cost, 579,672 shares as of December 31, 2023 and 464,672 shares as of December 31, 2022.	(2,476,501)	(2,005,744)
Total Stockholders' Equity	80,793,857	115,489,739
Total Liabilities and Stockholders' Equity	$ 86,147,681	$ 131,072,251

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

VUZIX CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Preferred Stock		Common Stock		Additional	Accumulated	Treasury Stock		
	Shares	**Amount**	**Shares**	**Amount**	**Paid-In Capital**	**Deficit**	**Shares**	**Amount**	**Total**
Balance - December 31, 2020	49,626	$ 50	45,645,166	$ 45,645	$ 210,952,473	$(162,694,983)	—	$ —	$ 48,303,185
Stock-Based Compensation Expense	—	—	368,047	368	18,429,556	—	—	—	18,429,924
Stock Option Exercises	—	—	659,398	659	781,618	—	—	—	782,277
Stock Warrant Exercises	—	—	7,276,928	7,277	34,708,451	—	—	—	34,715,728
Proceeds from Common Stock Offerings	—	—	4,768,293	4,768	97,745,239	—	—	—	97,750,007
Direct Costs of Common Stock Offerings	—	—	—	—	(6,136,420)	—	—	—	(6,136,420)
Shares Redeemed to Cover Employee Tax Withholdings	—	—	(83,164)	(83)	(1,144,282)	—	—	—	(1,144,365)
Stock Issued for Technology License Purchase	—	—	75,000	75	1,404,675	—	—	—	1,404,750
Preferred Stock Converted	(49,626)	(50)	4,962,600	4,963	(10,004,913)	—	—	—	(10,000,000)
2021 Net Loss	—	—	—	—	—	(40,377,160)	—	—	(40,377,160)
Balance - December 31, 2021	—	$ —	63,672,268	$ 63,672	$ 346,736,397	$(203,072,143)	—	$ —	$143,727,926
Stock-Based Compensation Expense	—	—	(3,017)	(3)	14,473,433	—	—	—	14,473,430
Stock Option Exercises	—	—	114,528	114	57,586	—	—	—	57,700
Purchases of Treasury Stock	—	—	—	—	—	—	(464,672)	(2,005,744)	(2,005,744)
2022 Net Loss	—	—	—	—	—	(40,763,573)	—	—	(40,763,573)
Balance - December 31, 2022	—	$ —	63,783,779	$ 63,783	$ 361,267,416	$(243,835,716)	(464,672)	$(2,005,744)	$115,489,739
Stock-Based Compensation Expense	—	—	96,525	97	12,618,533	—	—	—	12,618,630
Stock Option Exercises	—	—	26,976	27	21,169	—	—	—	21,196
Stock Issued under Atomistic Stock Purchase Agreement	—	—	1,397,500	1,398	3,282,728	—	—	—	3,284,126
Purchases of Treasury Stock	—	—	—	—	—	—	(115,000)	(470,757)	(470,757)
2023 Net Loss	—	—	—	—	—	(50,149,077)	—	—	(50,149,077)
Balance - December 31, 2023	—	$ —	65,304,780	$ 65,304	$ 377,189,847	$(293,984,793)	(579,672)	$(2,476,501)	$ 80,793,857

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

VUZIX CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	For Years Ended December 31,		
	2023	2022	2021
Sales:			
Sales of Products	$ 10,760,352	$ 10,505,763	$ 12,784,600
Sales of Engineering Services	1,368,787	1,330,119	380,333
Total Sales	12,129,139	11,835,882	13,164,933
Cost of Sales:			
Cost of Sales - Products Sold	8,839,279	8,737,852	9,709,268
Cost of Sales - Inventory Reserve for Obsolescence	4,358,062	290,405	519,950
Cost of Sales - Depreciation and Amortization	886,117	799,317	1,321,467
Cost of Sales - Engineering Services	680,411	525,182	45,758
Total Cost of Sales	14,763,869	10,352,756	11,596,443
Gross Profit (Loss)	(2,634,730)	1,483,126	1,568,490
Operating Expenses:			
Research and Development	12,339,534	12,676,688	11,674,954
Selling and Marketing	12,711,800	8,078,538	6,118,929
General and Administrative	18,592,185	21,038,562	22,502,833
Depreciation and Amortization	3,844,428	1,788,584	988,104
Loss on Goodwill and Other Intangible Asset Impairment	2,136,993	—	—
Loss on Fixed Asset Disposal	—	35,350	183,614
Impairment of Patents and Trademarks	41,869	97,675	80,163
Total Operating Expenses	49,666,809	43,715,397	41,548,597
Loss From Operations	(52,301,539)	(42,232,271)	(39,980,107)
Other Income (Expense):			
Investment Income	2,219,226	1,395,579	53,511
Income and Other Taxes	(230,973)	(212,997)	(307,368)
Foreign Exchange Loss	(44,062)	(180,589)	(143,196)
Utility Improvement Refund/Employee Retention Credit Refund	208,271	466,705	—
Total Other Income, Net	2,152,462	1,468,698	(397,053)
Loss Before Provision for Income Taxes	(50,149,077)	(40,763,573)	(40,377,160)
Provision for Income Taxes	—	—	—
Net Loss	(50,149,077)	(40,763,573)	(40,377,160)
Basic and Diluted Loss per Common Share	$ (0.79)	$ (0.64)	$ (0.66)
Weighted-average Shares Outstanding - Basic and Diluted	63,432,422	63,708,986	61,125,215

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

VUZIX CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2023	2022	2021
Cash Flows From (Used In) Operating Activities			
Net Loss	$ (50,149,077)	$ (40,763,573)	$ (40,377,160)
Non-Cash Adjustments			
Depreciation and Amortization	4,931,692	2,587,901	2,309,571
Stock-Based Compensation	12,711,084	15,775,553	17,302,833
Impairment of Patents and Trademarks	41,869	97,675	80,163
Loss on Fixed Asset Disposal	—	35,350	183,614
Reserve on Trade Accounts Receivable	1,574,000	—	—
Change in Inventory Reserve for Obsolescence	4,358,062	290,405	519,950
Loss on Goodwill and Other Intangible Asset Impairment	2,136,993	—	—
(Increase) Decrease in Operating Assets			
Accounts Receivable	(1,842,715)	(1,316,542)	(853,547)
Accrued Revenues in Excess of Billings	103,358	(269,129)	—
Utility Improvement Refund/Employee Retention Credit Receivable	258,434	(466,705)	—
Inventories	(2,090,523)	593,608	(6,571,108)
Manufacturing Vendor Prepayments	594,870	(494,620)	(19,019)
Prepaid Expenses and Other Assets	167,837	(95,244)	(526,825)
Increase (Decrease) in Operating Liabilities			
Accounts Payable	358,883	(843,015)	537,607
Accrued Expenses	745,904	251,231	436,276
Unearned Revenue	(10,225)	1,268	(13,355)
Income and Other Taxes Payable	(168,270)	94,755	10,589
Net Cash Flows Used in Operating Activities	(26,277,824)	(24,521,082)	(26,980,411)
Cash Flows Used in Investing Activities			
Purchases of Fixed Assets	(5,323,483)	(1,723,622)	(3,809,268)
Investments in Patents and Trademarks	(632,483)	(499,031)	(593,184)
Investments in Licenses, Intangibles and Other Assets	(10,500,000)	(16,523,163)	(200,000)
Business Acquisition, net of cash acquired	—	(2,300,000)	
Investments in Software Development	(125,000)	(125,000)	(250,000)
Investment in Atomistic	(2,500,000)	—	—
Investments in Other Assets	(200,000)	—	—
Net Cash Flows Used in Investing Activities	(19,280,966)	(21,170,816)	(4,852,452)
Cash Flows Provided by (Used in) Financing Activities			
Proceeds from Exercise of Warrants	—	—	34,715,728
Proceeds from Exercise of Stock Options	21,196	57,712	782,277
Proceeds from Common Stock Offering, Net	—	—	91,613,587
Purchases of Treasury Stock	(470,757)	(2,005,744)	—
Preferred Dividend Settlement Payment	—	—	(10,000,000)
Employee Tax Withholdings Payment	—	—	(1,144,364)
Net Cash Flows Provided by (Used in) Financing Activities	(449,561)	(1,948,032)	115,967,228
Net Increase (Decrease) in Cash and Cash Equivalents	(46,008,351)	(47,639,930)	84,134,365
Cash and Cash Equivalents - Beginning of Period	72,563,943	120,203,873	36,069,508
Cash and Cash Equivalents - End of Period	$ 26,555,592	$ 72,563,943	$ 120,203,873
Supplemental Disclosures			
Non-Cash Investment in Licenses	$ 1,000,000	$ 11,500,000	1,294,262
Investment in Atomistic - Equity issued	3,284,126	—	—
Stock-Based Compensation Expense - Expensed less Previously Issued	92,454	61,824	(1,127,091)

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

VUZIX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Summary of Significant Accounting Policies

Operations

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Vuzix Europe GmbH, Vuzix Japan Corporation, and Moviynt, Inc. All inter-company transactions have been eliminated.

Variable Interest Entities

The Company determines at the inception of each arrangement whether an entity in which it has made an investment or in which the Company has other variable interests is considered a variable interest entity (VIE). The Company consolidates VIEs when it is the primary beneficiary. The Company is the primary beneficiary of a VIE when it has the power to direct activities that most significantly affect the economic performance of the VIE and have the obligation to absorb the majority of their losses or benefits. If the Company is not the primary beneficiary in a VIE, the Company accounts for the investment or other variable interests in a VIE in accordance with applicable GAAP. Each reporting period, the Company assesses whether any changes in our interest or relationship with the entity affect our determination of whether the entity is a VIE and, if so, whether the Company is the primary beneficiary.

We have an investment in a VIE in which we are not the primary beneficiary. This VIE includes a private company investment, described further in Notes 2 and 7. We have determined that the governance and operating structures of this entity do not allow us to direct the activities that would significantly affect their economic performance. Therefore, we are not the primary beneficiary, and the results of operations and financial position of this VIE is not included in our consolidated financial statements. We account for this investment as a technology license and an equity investment. The maximum exposure of this unconsolidated VIE is generally based on the current carrying value of the investment. We have determined that the single source of our exposure to this VIE is our capital investment in them. The carrying value and maximum exposure of this unconsolidated VIE was $32.6 million as of December 31, 2023.

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 and engineering services revenue and material engineering services costs, with respect to separate product lines and does not have separately reportable segments as defined by FASB ASC Topic 280, "Disclosures about Segments of an Enterprise and Related Information".

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

Foreign Currency Transactions

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

Use of Estimates

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

Concentration of Credit Risk

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

Cash and Cash Equivalents

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

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company 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 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 net losses of $50,149,077 for the year ended December 31, 2023, $40,763,573 for the year ended December 31, 2022, and $40,377,160 for the year ended December 31, 2021. The Company had net cash outflows from operations of $26,277,824 for the year ended December 31, 2023, $24,521,082 for the year ended December 31, 2022, and $26,980,411 for the year ended December 31, 2021, respectively. As of December 31, 2023, the Company had an accumulated deficit of $293,984,793. The Company's cash outflows for investing activities was $19,280,966 for the year ended December 31, 2023, $21,170,816 for the year ended December 31, 2022, and $4,852,452 for the year ended December 31, 2021.

These factors initially raise substantial doubt about the Company's ability to continue as a going concern. Management's plans to alleviate the conditions that raise substantial doubt include operational improvements being implemented and the curtailment of certain development programs, both of which the Company expects will preserve cash. Management estimates the Company will have sufficient liquidity to fund operations at least through the second quarter of 2025.

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014- 15, Presentation of Financial Statements — Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. As a result, management is primarily responsible for assessing if there is a going concern issue when issuing an entity's financial statements. The going concern assumption underlies all GAAP financial reporting and therefore requires and assumes that the financial statements have been prepared on a going concern basis. It presumes that a Company will continue normal business operations into the future.

Additional disclosure is required when there is substantial doubt about business continuity or substantial doubt that has not been alleviated by management's mitigation plans. As required under applicable accounting standards, management has concluded that substantial doubt may exist surrounding the Company's ability to meet its obligations within one year of the issuance date of the annual report Form 10-K.

The Company's cash requirements going forward are primarily for funding operating losses, research and development, working capital, capital expenditures and license investments. The higher cash outflows for investments in the years ending December 31, 2023 and 2022 were mainly for the Company's technology license and equity investment in microLED technology via Atomisitc (see Notes 2 and 7). A total of $32,500,000 cash has been paid to Atomistic in the last two fiscal years. The Company is in the process of negotiating its final license fee, under which the Company would invest a further $5,000,000 in 2024, after which it would have a 25-year licenses to the Atomistic technology, which management believes will allow Atomistic to reach commercialization of its technology.

Our cash requirements related to funding operating losses depend upon 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. Historically, the Company has met its cash needs primarily by the sale of equity securities.

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 or it will be required to raise new equity and/or debt capital. Management's plans concerning these matters and managing our liquidity include, among other things:

- The continued sale of our existing M400, M4000, Blade 2 and Shield smart glasses finished goods and related component inventory, of which we have significant levels over the provisions we have made to date;
- On January 17, 2024, the Company announced that it was cutting its cash annual operating expenses by approximately $8,000,000 for 2024 across all operating areas by at least 20% as compared to 2023 levels, including Research and Development, Sales and Marketing and in General and Administrative areas;
- Right-sizing of operations across all areas of the Company, including head-count freezes or reductions;
- The expected margin contribution upon the commencement of volume manufacturing and sales of waveguides from our new waveguide plant in 2024, particularly to OEM customers;
- Continued pursuit of licensing and strategic opportunities around our waveguide technologies with potential OEMs, which would include the receipt of upfront licensing fees and on-going supply agreements;
- Implementation of a voluntary Company-wide payroll reduction program for all individuals with optional salary reductions of 10% to 30% depending upon the respective base salary level for the period running from May 1, 2024 to April 30, 2025. The expected cash savings will be $1,200,000 and will result in the issuance of stock awards or stock options, at a rate of 150% or 200%, respectively, of the net cash wage reductions;
- Delayed or curtailed discretionary and non-essential capital expenditures not related to near-term new products;
- Reduced the rate of new product introductions and leveraged existing platforms to reduce new product development and engineering costs;
- Further reductions of the rate of research and development spending on new technologies, particularly the use of external contractors.

The Company has in the past sold equity securities and in early 2024 entered into a sales agreement with an investment banking firm for the issuance and sale of up to $50,000,000 of our common stock that may be issued and sold from time to time in an "at the market" offering. Nonetheless, management monitors the capital markets on an ongoing basis and may consider raising capital if favorable market conditions develop. If the Company's actual results are less than projected or the Company needs to raise capital for additional liquidity, the Company may be required to do additional equity financings, reduce expenses, or enter into a strategic transaction. However, management can make no assurance that the

Company will be able to raise additional capital, reduce expenses sufficiently, or enter into a strategic transaction on terms acceptable to the Company, or at all.

If the Company is unable to achieve and maintain positive cash flows and profitability in the foreseeable future, its financial condition may ultimately be materially adversely affected such that management may be required to reduce operating expenses further, including investments in research and development, or raise additional capital. While there can be no assurance the Company will be able to successfully reduce operating expenses or raise additional capital, management believes its historical success in managing cash flows and obtaining capital will continue in the foreseeable future.

However, as a result of this uncertainty, doubt about the Company continuing as a going concern has not been fully alleviated to the satisfaction of its external auditors.

Fair Value of Financial Instruments

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

Accounts Receivable

The Company carries its trade accounts receivable at the invoice amount less an allowance for expected credit losses. The Company establishes an allowance for expected credit losses based on the age of outstanding invoices and management’s evaluation of collectability of outstanding balances. These provisions are established when the aging of outstanding amounts exceeds allowable terms and are re-evaluated at each quarter-end for adequacy. In determining the adequacy of the provision, the Company considers known uncollectible or at-risk receivables. The total allowance for expected credit losses as of December 31, 2023, 2022, and 2021 was $1,574,000, nil and nil, respectively. The accounts receivable balance as of December 31, 2021 was $2,242,429. The Company does not accrue interest on any past due accounts receivable unless such receivable goes into collection.

Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with the current year's presentation. These reclassifications had no effect on the reported results of operations. An adjustment has been made to the Consolidated Balance Sheet for the year ended December 31, 2022 to reclassify prepaid annual equity awards to external members of the Company's Board of Directors and one member of Senior Management. This change in classification does not affect previously reported Net Loss or reported Cash Flows Used in Operating Activities in the Consolidated Statements of Cash Flows.

The below table is a summary of the impact to this reclassification:

ASSETS	For the Year Ended December 31, 2022		
Current Assets	**As Previously Presented**	**Re-classification**	**Revised**
Cash and Cash Equivalents	$ 72,563,943	$ —	$ 72,563,943
Accounts Receivable, Net	3,558,971	—	3,558,971
Accrued Revenues in Excess of Billings	269,129	—	269,129
Utility Improvement Refund/Employee Retention Credit Receivable	466,705	—	466,705
Inventories, Net	11,267,969	—	11,267,969
Licenses, Net	—	—	—
Manufacturing Vendor Prepayments	998,671	—	998,671
Prepaid Expenses and Other Assets	2,115,853	(609,156)	1,506,697
Total Current Assets	91,241,241	(609,156)	90,632,085
Long-Term Assets			
Fixed Assets, Net	3,878,505	—	3,878,505
Operating Lease Right-of-Use Asset	956,165	—	956,165
Patents and Trademarks, Net	2,220,094	—	2,220,094
Technology Licenses, Net	30,158,689	—	30,158,689
Intangible Asset, Net	675,313	—	675,313
Goodwill	1,601,400	—	1,601,400
Other Assets, Net	1,581,143	(631,143)	950,000
Total Assets	$ 132,312,550	$ (1,240,299)	$ 131,072,251
LIABILITIES AND STOCKHOLDERS' EQUITY			
Total Liabilities	$ 15,582,512	$ —	$ 15,582,512
Stockholders' Equity			
Common Stock	63,783	—	63,783
Additional Paid-in Capital	362,507,715	(1,240,299)	361,267,416
Accumulated Deficit	(243,835,716)	—	(243,835,716)
Treasury Stock	(2,005,744)	—	(2,005,744)
Total Stockholders' Equity	116,730,038	(1,240,299)	115,489,739
Total Liabilities and Stockholders' Equity	$ 132,312,550	$ (1,240,299)	$ 131,072,251

Customer and Supplier Concentrations

Two customers represented 29% and 25%, respectively, of total product revenue and four customers represented 44%, 15%, 12% and 11%, respectively, of our engineering services revenue for the year ended December 31, 2023. One customer represented 14% of total product revenue and two customers represented 48% and 39%, respectively, of engineering services revenue for the year ended December 31, 2022. One customer represented 10% of total product revenue and four customers represented 39%, 28%, 16%, and 12%, respectively, of our engineering services revenue for the year ended December 31, 2021.

Two customers represented 47% and 26%, respectively, of gross accounts receivable at December 31, 2023. One customer represented 26% of accounts receivable at December 31, 2022. Three customers represented 27%, 20% and 10%, respectively, of accounts receivable at December 31, 2021.

No third-party vendors represented more than 10% of material purchases for the year ended December 31, 2023. One third-party vendor represented 15% of purchases for the year ended December 31, 2022. As of December 31, 2022, the net amount due to this vendor was $478,382. Two third-party vendors represented 38% and 24%, respectively, of material purchases for the year ended December 31, 2021. The net amount due to these vendors was $504,073.

Accrued Project Revenue

The Company carries accrued project revenue based on the percentage of completion on the project measured using the input method based upon costs incurred to-date as a percentage of total expected costs to complete the project less amounts invoiced, if any. As of December 31, 2023 and 2022 there was $165,771 and $269,129, respectively, in accrued project revenue and nil as of December 31, 2021.

Inventories

Inventories are valued at the lower of cost or net realizable value using the weighted average first-in, first-out method. The Company includes labor and overhead costs in its inventory valuation costing. The Company records provisions for excess, obsolete or slow-moving inventory based on changes in customer demand, technology developments or other economic factors. The Company's products have product life cycles that range on average from two to three years currently. At both the product introduction and product discontinuation stage, there is a higher degree of risk of inventory obsolescence. The provision for obsolete and excess inventory is evaluated for adequacy at each quarter end. The estimate of the provision for obsolete and excess inventory is partially based on expected future product sales, which are difficult to forecast for certain products. The total provision for inventory as of December 31, 2023 and 2022 was $5,775,551 and $1,417,489, respectively.

Revenue Recognition

The Company recognizes revenue from Contracts with Customers under FASB ASC Topic 606, "Revenue from Contracts with Customers". Product sales represent the majority of the Company's revenue. The Company recognizes revenue from these product sales as performance obligations are satisfied and transfer of control and ownership to the customer has occurred, typically upon physical shipment. Revenue is recognized in the amount that the Company expects to receive in exchange from the sale of our products. FOB shipping point is our standard shipping term and revenue is generally recognized as our products ship to customers, as control and ownership are transferred at this time. All of our standard product sales include a 30-day money back guarantee and expected returns are estimated at each reporting period date, and a portion of revenue is deferred for all estimated returns. As of December 31, 2023 and 2022, unearned revenue consisting of deferred revenue associated with our expected returns were immaterial. The Company collects and remits sales taxes in certain jurisdictions and reports revenue net of any associated sales taxes.

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

Unearned Revenue

These amounts represent deferred revenue against our expected product sales returns for all December 2023 and 2022 products sales that are subject to the Company's 30-day money back guarantee return policy.

Cost of Product Sales

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

Cost of Engineering Services Sales

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

Fixed Assets

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

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

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

Patents and Trademarks

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

Software Development Costs

The Company capitalizes the costs of obtaining or developing its software once technological feasibility has been determined by management or of purchased software solutions when placed into service. Such costs are accumulated and capitalized. Projects can take several years to complete. Unsuccessful or discontinued software projects are written-off and expensed in the fiscal period when the software development effort is abandoned or discontinued. Costs incurred internally in researching and developing a computer software product are charged to expense until technological feasibility has been established for the product. Once technological feasibility is established, all software costs are capitalized until the product is available for general release to customers. Judgment is required in determining when technological feasibility of a product is established. Once the product is available for general release, accumulated costs are amortized over the life of the asset. The amortization of these costs is included in cost of product sales over the estimated life of the products, which currently is estimated at three years using a straight-line basis. As of December 31, 2023, 2022 and 2021, we had $361,111, $500,000 and $541,666, respectively, of net software development costs included in Other Assets. For the years ended December 31, 2023, 2022 and 2021, there was nil in impairment of software development costs.

Licenses

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

Long-Lived Assets, Goodwill and Other Acquired Intangible Assets

The Company, at least annually, assesses all of its long-lived assets and intangibles, excluding goodwill, for impairment and when events or circumstances indicate their carrying amounts may not be recoverable. For the years ended December 31, 2023, 2022 and 2021, there was an impairment charge of $41,869, $97,675, and $80,163, respectively, to Patents and Trademarks. For the years ended December 31, 2023, 2022, and 2021, we recorded a loss on fixed asset disposal of nil, $35,350 and $183,614, respectively, upon the retirement of certain tooling and manufacturing equipment assets no longer in use. Intangible assets with definite lives are amortized over their estimated useful lives on a straight-line basis over a five-year period.

We test our goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired.

There was goodwill and acquired intangible asset impairment in the amount of $2,136,993 recognized for the year ended December 31, 2023. Theses assets with definite lives were being amortized over their estimated useful lives on a straight-line basis over a five-year period.

Research and Development

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

Shipping and Handling Costs

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

Provision for Future Warranty Costs

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

Advertising

Advertising costs are expensed as incurred and recorded in “Selling and Marketing” in the Consolidated Statements of Operations. Advertising expense for the years ended December 31, 2023, 2022 and 2021 was $2,279,797, $1,668,910 and $1,263,897, respectively.

Income Taxes

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

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

Net Loss Per Share

Basic earnings per share is computed by dividing the net income (loss) less accrued dividends on any outstanding preferred stock by the weighted average number of common shares outstanding for the period. Diluted earnings per share calculations reflect the assumed exercise of all dilutive employee stock options and warrants applying the treasury stock method promulgated by FASB ASC Topic 260, “Earnings Per Share” and the conversion of any outstanding convertible preferred shares or notes payable that are-in-the-money, applying the as-if-converted method. However, if the assumed exercise of stock options and warrants and the conversion of any preferred shares are anti-dilutive, basic and diluted earnings per share are the same for all periods. As a result of the net losses generated in 2023, 2022 and 2021, all outstanding instruments would be anti-dilutive. As of December 31, 2023, 2022 and 2021, there were 8,695,308, 8,589,673 and 8,606,062 common stock share equivalents, respectively, that were potentially issuable under stock options that could potentially dilute basic earnings per share in the future.

Stock-Based Compensation Expense

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

For common stock awards, the Company uses the fair market value of our common stock on the date of each stock-based award based on the market price of the Company’s common shares and the expense related to these awards is recognized over the requisite service period of the awards on a straight-line or graded vesting basis, which is generally commensurate with the vesting term. Stock-based compensation expense associated with stock awards and stock option grants for the years ended December 31, 2023, 2022 and 2021 was $4,566,253, $4,645,026, and $4,047,444, respectively, excluding awards under the Company’s Long-term Incentive Plan (LTIP). The Company issues new shares upon stock option exercises.

For stock options awarded under the Company's LTIP, options vest only upon the achievement of certain equity market conditions or performance-based milestones. The fair value of options granted under this program were calculated by using a Monte Carlo simulation for the equity market condition tranches and the Black-Scholes-Merton option pricing method on the performance-based tranches. Stock-based compensation expense associated with the Company's LTIP for the years ended December 31, 2023, 2022 and 2021 was $8,144,734, $11,130,527, and $13,255,388, respectively.

Leases

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

As of December 31, 2023, all of our leases are considered operating leases. Operating lease right-of-use assets and liabilities were included on our Consolidated Balance Sheets beginning January 1, 2019. The Company does not have any finance leases as of December 31, 2023.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (the "FASB") issued ASU 2016-13, "Financial Instruments - Credit Losses" (Topic 326). ASU 2016-13 provides for a new impairment model which requires measurement and recognition of expected credit losses for most financial assets and certain other instruments, including but not limited to accounts receivable. ASU 2016-13 became effective for the Company on January 1, 2023. The adoption of this new accounting standard did not have a material impact on our consolidated financial statements.

Recent Accounting Guidance Not Yet Adopted

In December 2023, the FASB issued ASU 2023-09 "Income Taxes (Topics 740): Improvements to Income Tax Disclosures" to expand the disclosure requirements for income taxes, specifically related to the rate reconciliation and income taxes paid. ASU 2023-09 is effective for our annual periods beginning January 1, 2025, with early adoption permitted. We are currently evaluating the potential effect that the updated standard will have on our financial statement disclosures.

Note 2 – Investment in Atomistic

In November 2023, Atomistic successfully reached seven of twelve technological milestones under its technology license agreement (Note 7) with the Company executed on December 16, 2022. As a result of these achievements, the Company issued to the Atomistic Founders 1,397,500 shares of the Company's common stock and paid them $2,500,000 in exchange for 13,682 shares of Series A Preferred stock of Atomistic. The fair market value of the common shares when issued was $2.35 per share or a total of $3,284,126.

The stock of Atomistic does not have a readily determinable fair value, as it's a private company; therefore, under ASC 321, the investment in Atomistic stock, including the purchase option, is accounted for at cost, unless a transaction occurs, indicating a known fair value or if indications of an impairment of the investment are known. The Company reviewed the investment in Atomistic for impairment and no indicators of impairment have occurred on or before December 31, 2023.

Note 3 – Revenue Recognition and Contracts with Customers

Disaggregated Revenue

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

	For the Years Ended December 31,		
	2023	2022	2021
Revenues			
Products Sales	$ 10,760,352	$ 10,505,763	$ 12,784,600
Engineering Services	1,368,787	1,330,119	380,333
Total Revenue	$ 12,129,139	$ 11,835,882	$ 13,164,933

Significant Judgments

Under Topic 606 "Revenue from Contracts with Customers", we use judgments that could potentially impact both the timing of our satisfaction of performance obligations and our determination of transaction prices used in determining revenue recognized by major product line. Such judgments include considerations in determining our transaction prices and when our performance obligations are satisfied for our standard product sales. For our Engineering Services, performance obligations are recognized over time using the input method and the estimated costs to complete each project are considered significant judgments.

Performance Obligations

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

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

As of December 31, 2023 and 2022, there were no outstanding performance obligations remaining for extended warranties.

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

	% of Total Net Sales		
	2023	2022	2021
Point-in-Time	89 %	89 %	97 %
Over Time – Input Method	11 %	11 %	3 %
Total	100 %	100 %	100 %

Remaining Performance Obligations

As of December 31, 2023, the Company had $2,929,709 of remaining performance obligations under three current waveguide development projects, which represents the remainder of transaction prices totaling $3,637,240 under these development agreements, which commenced in 2023, less revenue recognized under percentage of completion to date. The Company expects to recognize the remaining revenue related to these projects, based upon expected due dates, of 66% in 2024 and 34% in 2025. Revenues earned less amounts invoiced at December 31, 2023, in the amount of $165,771 are reflected as Accrued Revenues in Excess of Billings in the accompanying Consolidated Balance Sheet.

As of December 31, 2022, the Company had approximately $187,000 of remaining performance obligations under a current waveguide development project, which represents the remainder of the total transaction price of approximately $896,000 under this development agreement, less revenue recognized under percentage of completion to date. The Company did recognize the remaining revenue related to this project in the first quarter of 2023. Revenues earned less amounts invoiced at December 31, 2022 in the amount of $269,129 are reflected as Accrued Revenues in Excess of Billings in the accompanying Consolidated Balance Sheet.

The Company had no material outstanding performance obligations related to product sales, other than its standard product warranty.

Note 4 — Inventories, Net

Inventories consisted of the following:

	December 31, 2023	December 31, 2022
Purchased Parts and Components	$ 9,500,415	$ 10,399,527
Work-in-Process	394,923	344,242
Finished Goods	4,880,643	1,941,689
Less: Reserve for Obsolescence	(5,775,551)	(1,417,489)
Inventories, Net	$ 9,000,430	$ 11,267,969

In addition to its normal Reserve for Obsolescence provision, the Company reserved as of December 31, 2023 additional provisions for expected surplus component parts and obsolescence in excess of its currently planned existing product builds in 2024 and into 2025 on most of its existing smart glass product models in anticipation of the planned introduction of newer models, which would logically replace the existing models when introduced. The disposal value of the excess components that could not be used in future models is unknown, so a 100% obsolescence provision has been accrued. The total reserve write-down recorded at December 31, 2023 was $2,700,000 and the Company increased its standard reserve by $1,658,000. The write-down and obsolescence provisions totaled $5,775,551 and $1,417,489 for the years ended December 31, 2023 and 2022, respectively. These provisions were included in Cost of Sales on the Consolidated Statements of Operations.

For the year ended December 31, 2022, the Company increased its standard Reserve for Obsolescence provision by $290,405 related to some of its accessories. The total write-down and obsolescence provision for finished goods and components recorded for the year ended December 31, 2021 was $519,950.

Note 5 — Fixed Assets, Net

Fixed Assets consisted of the following:

	December 31, 2023	December 31, 2022
Tooling and Manufacturing Equipment	$ 7,693,192	$ 6,065,445
Leaseholds	4,262,695	826,329
Computers and Purchased Software	833,794	760,256
Furniture and Equipment	2,580,904	2,487,650
	15,370,585	10,139,680
Less: Accumulated Depreciation	(7,297,755)	(6,261,175)
Fixed Assets, Net	$ 8,072,830	$ 3,878,505

Total depreciation expense for fixed assets for the years ended December 31, 2023, 2022 and 2021 was $1,036,578, $869,502, and $1,306,479, respectively.

During the twelve months ended December 31, 2023, the Company invested $5,323,483 in tooling and manufacturing equipment and leasehold improvements, mostly attributable to the Company’s new waveguide expansion project. Construction on the Company’s new waveguide facility in a leased building began late in December 2022 and was completed and placed into service in November 2023.

Note 6 — Patents and Trademarks, Net

	December 31, 2023	December 31, 2022
Patents and Trademarks	$ 3,727,265	$ 3,153,358
Less: Accumulated Amortization	(1,100,247)	(933,264)
Patents and Trademarks, Net	$ 2,627,018	$ 2,220,094

Total amortization expense for patents and trademarks for the years ended December 31, 2023, 2022 and 2021 was $183,690, $149,700 and $145,072, respectively. The estimated aggregate annual amortization expense for each of the next five fiscal years is approximately $248,000. For the years ended December 31, 2023, 2022 and 2021, we recorded $41,869, $97,675 and $80,163, respectively, in patent impairment charges.

Note 7 — Technology Licenses, Net

	December 31, 2023	December 31, 2022
Licenses	$ 32,443,356	$ 2,443,356
Additions	—	30,000,000
Less: Accumulated Amortization	(5,592,355)	(2,284,667)
Licenses, Net	$ 26,851,001	$ 30,158,689

Total amortization expense related to these intangible technology licenses in the years ended December 31, 2023, 2022 and 2021 was $3,307,737, $1,231,197, and $480,945, respectively.

These intangible technology license assets are being amortized over a ten-year period, which began on May 12, 2022 and, as modified, on December 16, 2022. During the year ended December 31, 2023, the Company paid $10,500,000 towards its licensing commitment liability with Atomistic. The Atomistic technology license represents $30,000,000 of the total licenses on-hand and the Company recorded a total of $3,307,737 in amortization relating to these intangible assets and other licenses. The remaining funding commitment of $1,000,000 associated with these licenses was paid in January 2024.

Until the Company achieves a near 100% ownership in Atomistic by the issuance of Vuzix shares (see Note 12) for the completion of all development milestones, or is permitted to waive them and accelerate the share issuances for 100% ownership of Atomistic, the Company and the current owners of Atomistic must negotiate every 12 to 24 months new funding contributions for the extension of its exclusive license. If such amounts cannot be reasonably negotiated or would be considered too large by Vuzix in the future, failure to pay the additional license fees would result in the termination of Vuzix existing license to the Atomistic technologies.

Note 8 — Goodwill and Acquired Intangible Assets, Net

On October 20, 2022, the Company acquired Moviynt, a US-based SAP Certified ERP platform software solution provider, that supports handheld mobile phones and scanners used in logistics, warehousing and manufacturing applications. Moviynt, a boutique specialized software firm which was founded in 2018 by three principals, has developed a logistics mobility software platform (Mobilium®) which eliminates traditional middleware, and is device agnostic. With the acquisition, Moviynt became a wholly-owned subsidiary of Vuzix.

The Moviynt acquisition was completed pursuant to an agreement and plan of merger by and among the Company and Moviynt, Inc. (the Sellers), a Delaware corporation. Total purchase price consideration paid to the Sellers was $2,469,574, which included $2,300,000 in base merger consideration and $169,574 in net working capital adjustments, in exchange for all shares outstanding. The acquisition agreements contained customary terms and conditions including representations, warranties and indemnification provisions. A portion of the consideration paid to the Sellers was held in escrow for indemnification purposes, which was subsequently released to the Sellers upon the Company completing a 90-day post close review.

The Moviynt acquisition was accounted for in accordance with the accounting treatment of a business combination pursuant to FASB ASC Topic 805, Business Combinations ("ASC 805"). Accordingly, the purchase price was allocated to the tangible and intangible assets acquired and the liabilities assumed based on their estimated fair values on the acquisition date. The excess of the purchase price over the estimated fair value of the separately identifiable assets acquired and liabilities assumed was allocated to goodwill. Management was responsible for determining the acquisition date fair value of the assets acquired and liabilities assumed, which requires the use of various assumptions and judgments that are inherently subjective. The purchase price allocation presented below reflects all known information about the fair value of the assets acquired and liabilities assumed as of the acquisition date.

The following table represents the preliminary assets acquired and liabilities assumed on October 20, 2022:

Cash	$	132,233
Accounts Receivable		44,820
Goodwill		1,601,400
Other Intangible Assets		698,600
Accrued Expenses		(7,479)
Net Assets Acquired	$	2,469,574

The goodwill included in the Company's purchase price allocation presented above represented the value of Moviynt's assembled and trained workforce and the incremental value of Moviynt's technology and deployment efforts that were in place at the date of acquisition. No amount of goodwill is considered deductible for tax purposes.

Intangible assets were valued using various income methods based upon management's approved projections of future cash flows. The following table summarizes the estimated fair value and annual amortization for each of the identifiable intangible assets acquired:

	Estimated Fair Value	Amortization Period (Years)	Annual Amortization				
			Year 1	Year 2	Year 3	Year 4	Year 5
Tradename-Trademark	$ 92,600	5	$ 18,520	$ 18,520	$ 18,520	$ 18,520	$ 15,433
IP-Technology-License	415,400	5	83,080	83,080	83,080	83,080	69,233
Customer Base	153,400	5	30,680	30,680	30,680	30,680	25,567
Non-Competes	37,200	5	7,440	7,440	7,440	7,440	6,200
Total definite-lived intangible assets	**$ 698,600**		**$ 139,720**	**$ 139,720**	**$ 139,720**	**$ 139,720**	**$ 116,433**

During the year ended December 31, 2022, the Company incurred acquisition-related costs and other non-recurring expenses of $74,723 directly attributable to the acquisition, including one-time accounting, legal and due diligence services, which amounts were expensed as incurred.

In 2023, Moviynt generated $120,158 of subscription-based revenue and $19,238 of engineering revenue which was applied against $6,347 related to Cost of Sales, generating a gross margin of $133,049. In 2022, Moviynt generated $76,952 of engineering revenue which was applied against $24,819 related to Cost of Sales, generating a gross margin of $52,133.

The following table represents goodwill and acquired intangible assets activity. Due to slower than originally expected revenue growth by Moviynt, the Company took an impairment charge of $2,136,993 for the unamortized intangible assets and goodwill of Moviynt.

December 31, 2021	$ -
Goodwill and Intangible Assets Acquired	2,300,000
Amortization Expense	(23,287)
December 31, 2022	2,276,713
Amortization Expense	(139,720)
Impairment Charge	(2,136,993)
December 31, 2023	$ -

Note 9 – Other Assets

The Company's other assets consists of the following:

	December 31, 2023	December 31, 2022
Private Corporation Investments	$ 450,000	$ 450,000
Additions	200,000	—
Total Private Corporation Investments (at cost)	650,000	450,000
Software Development Costs	875,000	750,000
Additions	125,000	125,000
Less: Accumulated Amortization	(638,889)	(375,000)
Software Development Costs, Net	361,111	500,000
Total Other Assets	$ 1,011,111	$ 950,000

During the year ended December 31, 2021, the Company acquired, for a purchase price of $200,000, an ownership interest of 3%, in the form of preferred stock, in a private corporation developing smart glasses software for use by retailers in the stockkeeping of inventory, amongst other uses. In the year ended December 31, 2023, the Company purchased an additional $100,000 of preferred stock in this corporation through a subsequent round of funding in order to retain a 2% ownership interest.

In June 2023, the Company purchased $100,000 of preferred stock, along with warrants, in a UK-based public company developing new semiconductor materials for displays. The investment represents less than a 1% ownership interest.

During 2020, the Company invested $500,000 in Android operating systems upgrades for its CPU platform used in its M400 and M4000 products, which was recorded as Software Development Costs. This upgrade was completed and placed into service in the beginning of the fourth quarter of 2020. This capitalized asset is being amortized on a straight-line basis over its expected product life span of thirty-six (36) months, which began on October 1, 2020 and became fully amortized in 2023. In October 2021, the Company invested $250,000 and in the first quarter of 2022 the Company invested an additional $125,000 for further Android operating systems version upgrades to the CPU platform it uses in its M400 and M4000 products. During the year ended December 31, 2023, the Company made a final investment of $125,000 to these software system upgrades, which were placed into service during the second quarter of 2023. These additional upgrades of $500,000 are being amortized on a straight-line basis over thirty-six (36) months.

Total amortization expense for capitalized software development costs for the years ended December 31, 2023, 2022 and 2021 was $263,549, $166,667 and $240,395, respectively, and are included in Cost of Sales – Products in the Consolidated Statements of Operations.

Note 10 — Accrued Expenses

Accrued expenses consisted of the following:

	December 31, 2023	December 31, 2022
Accrued Wages and Related Costs	$ 1,711,707	$ 843,537
Accrued Professional Services	362,100	263,800
Accrued Warranty Obligations	188,249	159,927
Other Accrued Expenses	154,387	403,275
Total	$ 2,416,443	$ 1,670,539

Included in Accrued Wages and Related Costs was $1,033,859 in severance costs for staff reductions that took place in January as part of the Company's cost reduction initiative, which was approved on December 18, 2023 and announced on January 17, 2024.

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

The changes in the Company's accrued warranty obligations for the years ended December 31, 2023, 2022 and 2021 were as follows:

Accrued Warranty Obligations at December 31, 2020	$	143,898
Reductions for Settling Warranties		(342,392)
Warranty Issued During Year		383,538
Accrued Warranty Obligations at December 31, 2021		185,044
Reductions for Settling Warranties		(408,655)
Warranty Issued During Year		383,538
Accrued Warranty Obligations at December 31, 2022	$	159,927
Reductions for Settling Warranties		(286,851)
Warranties Issued During Year		315,173
Accrued Warranty Obligations at December 31, 2023	$	188,249

Note 11 — Income Taxes

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

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

	December 31, 2023	December 31, 2022	December 31, 2021
Pre-Tax Income (Loss)			
U.S.	$ (49,035,562)	$ (41,356,619)	$ (39,906,101)
Outside the U.S.	(1,113,515)	593,046	(471,059)
Total Pre-Tax Income (Loss)	$ (50,149,077)	$ (40,763,573)	$ (40,377,160)

The provision expense/(benefit) for income taxes for the years ended December 31, 2023, 2022 and 2021 was as follows:

	2023	2022	2021
U.S. Income Taxes:			
Current Provision	$ —	$ —	$ —
Deferred Provision	(7,207,958)	(2,957,991)	(8,924,947)
Valuation Allowance	7,207,958	2,957,991	8,924,947
Income Taxes Outside the U.S.:			
Current Provision	—	—	—
Deferred Provision	297,343	109,107	(341,181)
Valuation Allowance	(297,343)	(109,107)	341,181
State Income Taxes:			
Current Provision	—	—	—
Deferred Provision	(634,503)	271,248	(636,401)
Valuation Allowance	634,503	(271,248)	636,401
Total Provision	$ —	$ —	$ —

A reconciliation of the statutory U.S. federal income tax rate to the effective rates for the years ended December 31, 2023, 2022 and 2021 is as follows:

	2023 %	2022 %	2021 %
Federal Income Tax at Statutory Rate	21.0	21.0	21.0
State Tax Provision, Net of Federal Benefit	1.1	(0.5)	1.6
Permanent Differences	(0.7)	(0.4)	—
Federal Tax Credits	0.0	(0.1)	0.2
Stock Compensation	(5.0)	(13.2)	1.5
Foreign Tax Provision	(1.4)	0.1	0.6
Expiration of NOL, Credits, Charitable Contribution	0.0	(0.8)	(0.7)
Other	0.0	0.2	0.3
Effective Tax Rate	15.0	6.3	24.5
Change in Valuation Allowance	(15.0)	(6.3)	(24.5)
Net Effective Tax Rate	—	—	—

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

	December 31, 2023	December 31, 2022	December 31, 2021
Deferred Tax Assets:			
Net Operating Loss Carry-forwards	$ 42,538,219	$ 38,655,757	$ 36,705,377
Tax Credit Carry-forwards	4,191,198	4,048,872	3,924,660
Inventory Valuation Adjustment	1,316,114	350,165	290,713
Stock-Based Compensation	1,098,240	890,169	2,989,427
Lease Obligation Liability	65,628	204,141	240,741
Capitalized R&D	4,172,773	2,265,857	—
Intangible Assets	510,539	—	—
Other	627,529	702,540	425,737
Total Deferred Tax Assets	54,520,240	47,117,501	44,576,655
Deferred Tax Liabilities:			
Lease Right of Use Asset	65,628	204,141	240,741
Moviynt Intangibles	—	3,867	—
Other	—	—	4,057
Total Deferred Tax Liabilities	65,628	208,008	244,798
Net Deferred Tax Assets Before Valuation Allowance	$ 54,454,612	$ 46,909,493	$ 44,331,857
Valuation Allowance	(54,454,612)	(46,909,493)	(44,331,857)
Net Deferred Tax Assets	$ —	$ —	$ —

As December 31, 2023, the Company has approximately $196 million in US federal net operating loss (NOL) carryforwards. Some of these NOL carryforwards will expire beginning in 2025 and others are not subject to expiration. Specifically, $75.2 million of the NOL carryforward will begin to expire in 2025 and as a result of the Tax Cuts and Jobs Act, the remaining NOL carryforwards have no expiration. In addition to the US Federal NOL carryforwards, the Company has state NOL carryforwards of approximately $11.1 million in various jurisdictions in which it files that will begin to expire in 2034. The Company also has approximately $4.2 million of federal and state credit carryforwards. The credit carryforwards will begin to expire in 2024 and will be fully expired by 2042 if not utilized. Utilization of the NOL carryforwards may be subject to an annual limitation in the case of sufficient equity ownership changes under Section 382 of the tax law or the NOL's may expire unutilized.

In addition to the US Federal and state attributes noted above, for tax years ending prior to December 31, 2023, Vuzix owned a Japanese branch that had NOL carryforwards of $3.4 million. In 2023, the Company converted its legal designation from a branch to a Japanese corporation, wholly-owned by the Company. With the legal conversion to an incorporation, the Japan branch NOLs will no longer be accessible for utilization. Further, Vuzix Europe GmbH, a wholly-owned subsidiary incorporated in Germany, has NOLs as of December 31, 2023 of $0.4 million that have no expiration.

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

The Company’s U.S. Federal and state tax matters for the years 2019 through 2022 remain subject to examination by the respective tax authorities.

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

Note 12 — Capital Stock

Preferred stock

The Board of Directors are authorized to establish and designate different series of preferred stock and to fix and determine their voting powers and other rights and terms. A total of 5,000,000 shares of preferred stock with a par value of $0.001 are authorized as of December 31, 2023 and December 31, 2022. Of this total, 49,626 shares are designated as Series A Preferred Stock. There were no shares of Series A Preferred Stock issued and outstanding on December 31, 2023 and 2022.

Common Stock

The Company’s authorized common stock consists of 100,000,000 shares, par value of $0.001 as of December 31, 2023, and December 31, 2022. There were 65,304,780 shares of common stock issued and 64,725,108 shares of common stock outstanding as of December 31, 2023 and there were 63,783,779 shares of common stock issued and 63,319,107 shares of common stock outstanding as of December 31, 2022

In connection with the Atomistic Technology Licenses discussed in Note 7, on November 20, 2023, the Company issued a total of 1,397,500 shares of common stock to the Founders of Atomistic SAS (“Atomistic”) for the achievement of certain technological milestones under a license agreement entered into between the Company, Atomistic and such founders, along with cash consideration in exchange for equity in Atomistic (see Note 2). Pursuant to the Stock Purchase Agreement with Atomistic and its Founders, the Company will, upon completion of certain deliverables and the achievement of further milestones contained in the Atomistic Agreements, be committed to issue, depending on the Company’s share price within a $13.00 to $8.00 range at the time of their issuance, a further minimum of approximately 900,000 up to a maximum of 1,446,254 common shares to the stockholders of Atomistic (as a portion of the consideration for certain shares of Atomistic) which would result in Vuzix owning Series A Preferred shares in Atomistic that could ultimately be converted into ordinary shares of Atomistic and Vuzix ultimately owning 100% of Atomistic, with Atomistic becoming a subsidiary of the Company. The remaining Milestones and the Company’s related further issuances of common stock are expected to be completed over the next 6 to 21 months.

Within five years of the commencement of the Atomistic Agreements, the Company has agreed to issue up to a 15% equity bonus of the previously issued common shares to Atomistic stockholders, if: (i) the Company engages in a change-of-control transaction for an implied equity value of at least $3.5 billion or (ii) the Company's market valuation exceeds $3.5 billion. This could result in the issuance of an additional 291,346 to 473,438 shares of the Company's common stock when that valuation target is exceeded. None of these share commitments have been issued to date.

Treasury Stock

On March 2, 2022, our Board of Directors approved the Company to repurchase up to an aggregate of $25 million of our common stock by open market or privately negotiated transactions under the Share Buyback Program. This program was in effect for one year and expired on March 2, 2023. During the year ended December 31, 2023, the Company repurchased 115,000 shares of our common stock at an average cost of $4.06, before commission of $0.03 per share. As of December 31, 2023, 579,672 shares of our common stock were held in treasury.

During the year ended December 31, 2022, the Company repurchased 464,672 shares of our common stock at an average cost of $4.32 per share. As of December 31, 2022, 464,672 shares of our common stock were held in treasury.

Note 13 — Stock Warrants

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

	December 31, 2023	December 31, 2022	December 31, 2021
Warrants Outstanding at:	—		7,276,928
Exercised During the Period	—		(7,276,928)
Issued During the Period	—	—	—
Warrants Outstanding at:	—	—	—

As of December 31, 2023, there were no outstanding warrants remaining.

During the year ended December 31, 2021, a total of 7,276,928 warrants were exercised on a cash basis resulting in the issuance of 7,276,928 shares of common stock and proceeds to the Company of $34,715,728.

Note 14 — Stock-Based Compensation

The Company has the following Stock Option Plans ("Plans") that allow for the grants of both incentive stock options or ISOs, which can result in potentially favorable tax treatment to the participant, and non-statutory stock options. The Company's 2023 Equity Incentive Plan (the "2023 Plan") was approved by the stockholders of the Company on June 15, 2023. The Company no longer issues any options under its prior 2014 Plan. The 2023 Plan no longer contains an "evergreen provision". As of December 31, 2023, the authorized shares of common stock under the 2023 Plan, as amended, were 12,641,637.

The exercise price per share subject to an option is determined by the administrator, but in the case of an ISO must not be less than the fair market value of a share of our common stock on the date of grant and in the case of a non-statutory stock option must not be less than 100% of the fair market value of a share of our common stock on the date of grant.

Under the 2023 Plan, the Company may grant stock options, stock appreciation rights, performance awards of stock and/or cash, and stock awards of restricted stock.

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

	2014 Plan	2023 Plan	Total
Outstanding or Exercised as of December 31, 2021	11,184,450	—	11,184,450
Available for future issuance under plan	1,550,004	—	1,550,004
Total authorized by plan	12,734,454	—	12,734,454
Outstanding or Exercised as of December 31, 2022	11,168,061	—	11,168,061
Available for future issuance under plan	1,495,760	—	1,495,760
Totals authorized by plan	12,663,821	—	12,663,821
Outstanding or Exercised as of December 31, 2023	—	8,791,833	8,791,833
Available for future issuance under plan	—	3,849,804	3,849,804
Totals authorized by plan	—	12,641,637	12,641,637

The 2023 Plan gives the Board of Directors of the Company the ability to determine vesting periods for all stock incentives granted under the 2023 Plan and allows option terms to be up to ten years from the original grant date. Employees' incentive stock options typically vest at a minimum rate of 25% per year over a four-year period, commencing on the date of grant.

The following table summarizes stock option activity related to the Company's standard employee incentive plan, excluding options awarded under the Long-term Incentive Plan (LTIP), for the years ended December 31, 2023, 2022 and 2021:

	Number of Options	Weighted Average Exercise Price	Average Remaining Life (years)
Outstanding at December 31, 2020	2,633,175	$ 3.09	6.53
Granted	1,100,500	17.23	
Exercised	(739,956)	3.36	
Expired or Forfeited	(170,085)	8.58	
Outstanding at December 31, 2021	2,823,634	$ 7.67	7.95
Granted	442,000	5.45	
Exercised	(145,185)	2.56	
Expired or Forfeited	(314,776)	9.27	
Outstanding at December 31, 2022	2,805,673	$ 7.80	7.28
Granted	180,000	4.43	
Exercised	(28,240)	1.33	
Expired or Forfeited	(46,125)	11.33	
Outstanding at December 31, 2023	2,911,308	$ 7.60	6.30

As of December 31, 2023, there were 2,093,850 options that were fully-vested and exercisable at a weighted average exercise price of $7.18 per share. The weighted average remaining contractual term on the vested options is 5.6 years. The unvested balance of 817,458 options as of December 31, 2023 were exercisable at a weighted average exercise price of $8.65 per share. The weighted average remaining contractual term on the vested options was 8.11 years.

As of December 31, 2022, there were 1,493,707 options that were fully-vested and exercisable at a weighted average exercise price of $6.88 per share. The weighted average remaining contractual term on the vested options is 6.3 years. The unvested balance of 1,311,966 options as of December 31, 2022, are exercisable at a weighted average exercise price of $8.83 per share. The weighted average remaining contractual term on the unvested options is 8.4 years.

As of December 31, 2021, there were 1,069,639 options that were fully-vested and exercisable at a weighted average exercise price of $5.70 per share. The weighted average remaining contractual term on the vested options is 6.6 years. The unvested balance of 1,753,995 options as of December 31, 2021, are exercisable at a weighted average exercise price of $9.62 per share. The weighted average remaining contractual term on the unvested options is 8.8 years.

The aggregate intrinsic value of the options exercised during the year ended December 31, 2023, 2022 and 2021 was approximately $85,263, $627,876 and $13,325,035, respectively.

The aggregate intrinsic value of the options outstanding as of December 31, 2023, 2022 and 2021 was approximately $563,874, $2,093,164 and $9,314,887, respectively.

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

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

The following summary table shows the assumptions used to compute the fair value of stock options granted, excluding LTIP, during 2023, 2022 and 2021 and their estimated value:

December 31,	2023	2022	2021
Assumptions for Black-Scholes:			
Expected term in years	6.0 to 6.1	6.1	6.1 to 6.5
Volatility	86.97% to 88.42 %	85.44% to 87.09 %	82.8% to 86.0 %
Risk-free interest rate	3.58% to 4.43 %	2.18% to 3.95 %	0.96% to 1.25 %
Expected annual dividends	None	None	None
Value of options granted:			
Number of options granted	180,000	442,000	1,100,500
Weighted average fair value per share	$ 3.34	$ 4.04	$ 12.40
Fair value of options granted	$ 600,345	$ 1,783,710	$ 13,642,976

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

Unrecognized stock-based compensation expense was $5,036,891 as of December 31, 2023, relating to a total of 817,458 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 1.8 years.

During the year ended December 31, 2023, the Company issued 96,525 shares of common stock to the independent members of its Board of Directors as part of their annual retainer for services covering the period of July 2023 to June 2024. The fair market value on the date of award of the stock issued was $5.18, resulting in an aggregate fair value of approximately $500,000. The fair market value of these awards is expensed over twelve (12) months, beginning on July 1, 2023.

During the year ended December 31, 2022, the Company issued 200,000 shares of common stock to its Chief Operating Officer. The fair market value on the date of award of the stock issued was $5.64, resulting in an aggregate fair value of approximately $1,128,000. The fair market value of this award is expensed over a forty-two (42) month vesting period, which began June 15, 2022.

For the years ended December 31, 2023, 2022 and 2021, the Company recorded total stock-based compensation expense, including stock awards but excluding awards under the Company's LTIP of $4,566,253, $4,645,026, and $4,047,444, respectively.

Note 15 – Long-term Incentive Plan

On March 17, 2021, the Company granted options to purchase a total of 5,784,000 shares of common stock to its officers and certain other members of its management team. The options were granted under the Company's existing 2014 Incentive Stock Plan. The options have an exercise price of $19.00, with 375,000 options vesting immediately and the remaining portion vesting upon the achievement of certain equity market capitalization milestones, and revenue and EBITDA operational milestones. For the years ended December 31, 2023, 2022 and 2021, the Company recorded non-cash stock-based compensation expense of $8,352,700, $11,130,527 and $13,255,388, respectively, for options that vested or are probable to vest.

The fair value of option grants was calculated using a Monte Carlo simulation for the equity market capitalization tranches and the Black-Scholes-Merton option pricing method for the operational milestone tranches. As of December 31, 2023, we had $8,857,231 of total unrecognized stock-based compensation expense for the portion of options tied to equity market capitalization milestones and the portion of options tied to operational milestones that were considered probable of achievement, all of which will be recognized over a service period of up to three to four years. The probabilities of the milestone achievements are subject to catch-up adjustments in each instance where an equity market capitalization milestone is achieved or when an operational milestone becomes probable to be achieved or is achieved. Compensation costs could be reversed in subsequent periods if an awardee leaves the Company prior to the expiration of the option life for market capitalization milestone or performance award vesting of a performance award no longer determined to be probable. If such milestones are achieved earlier in their expected service periods, the remaining unrecognized compensation expense related to that particular milestone would be accelerated and recognized in full during the period where that achievement is affirmed by the Board of Directors. As of December 31, 2023, and going forward, should all of the operational milestones which are currently not yet deemed probable of achievement become probable of achievement or are achieved, then the Company could ultimately recognize up to an additional $34 million in non-cash stock-based compensation expense at such time.

The unvested remaining equity market and operational milestones under the LTIP with their total related option grants and criteria achievement weightings of the options available for meeting a target are shown in the following table. Of the total 5,409,000 unvested options outstanding as of December 31, 2023, there are 2,679,750 options unvested for the achievement of Equity Market Capitalization targets, 1,875,825 unvested options for the achievement of annual Revenue targets, and 803,925 unvested options for the achievement of annual EBITDA Margins Before Non-Cash Charges targets.

Award Potential	**Criteria Achievement Weighting**		
	50% of Options Available	**35% of Options Available**	**15% of Options Available**
Options Available (Subject to Vesting)	Equity Market Capitalization Target	Last Twelve Months Revenue Target	Last Twelve Months EBITDA Target
680,500	$ 2,000,000,000	$ 25,000,000	0.0%
680,500	3,000,000,000	50,000,000	2.0%
680,500	4,000,000,000	100,000,000	4.0%
680,500	5,000,000,000	200,000,000	6.0%
580,500	6,000,000,000	300,000,000	8.0%
580,500	7,000,000,000	450,000,000	10.0%
555,500	8,000,000,000	675,000,000	12.0%
485,500	9,000,000,000	1,000,000,000	14.0%
435,500	10,000,000,000	1,500,000,000	16.0%
5,359,500			

Note 16 — Right-of-Use Assets and Liabilities

The Company has signed lease agreements, with the largest being for its office and manufacturing facility in the West Henrietta, New York area under an operating lease that commenced October 3, 2015, and was set to expire on October 3, 2020. This lease has an original five-year term with an option by the Company to renew for two additional three-year terms at pre-agreed to lease rates. On June 25, 2020, the Company exercised the first of two renewal terms, extending our current lease term to January 31, 2024. On January 16, 2024, the Company exercised the second renewal extending our current lease term to November 30, 2025. This lease renewal was not recorded in our Consolidated Balance Sheets as its renewal was not reasonably certain as of December 31, 2023.

In October 2022, we leased an additional 12,000 square feet for our new waveguide manufacturing facility adjacent to our existing facility in West Henrietta, New York. This lease has an original three-year term, expiring on November 30, 2025, with an option by the Company to renew for two additional one-year terms at pre-agreed to lease rates. This lease commenced on December 1, 2022, and monthly base rent lease payments are $9,503 plus additional rent of $2,587.

Operating lease costs under our operating leases totaled $828,007, $659,045 and $630,085 for the years ended December 31, 2023, 2022 and 2021, respectively.

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

As none of our leases provide an implicit interest rate, we use our incremental borrowing rate to determine our discount rate at lease inception based upon the information available at commencement in determining the present value of lease payments. As of December 31, 2023, the weighted average discount rate was 8.3% and the weighted average remaining lease term was 1.9 years. As of December 31, 2022, the weighted average discount rate was 7.1% and the weighted average remaining lease term was 1.8 years.

Future lease payments under operating leases as of December 31, 2023 were as follows:

2024	$ 191,120
2025	132,982
Total Future Lease Payments	324,102
Less: Imputed Interest	(22,917)
Total Lease Liability Balance	$ 301,185

Note 17 — Employee Benefit Plans

The Company has a Section 401(k) Savings Plan which covers employees who meet certain age and length of service requirements. Effective July 1, 2018, the Company’s Plan was amended to include a 100% match by the Company on all eligible employee salary deferrals. The Company’s matching contribution is limited to 3% of covered employee’s annual salary. Total 401(k) matching expense for the years ended December 31, 2023, 2022 and 2021 totaled $332,717, $262,726 and $280,660, respectively.

Note 18 — Litigation

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

Note 19 — Geographic and Other Financial Information (Unaudited)

Geographic Financial Information (Unaudited)

Geographical revenue information, based on ship-to destination of the customers for the three years ended December 31, 2023, 2022 and 2021 is as follows (in thousands):

By Continent and Region:

	Fiscal Year					
	2023		2022		2021	
	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total
North America	$ 6,335	52 %	$ 4,738	40 %	$ 5,003	38 %
Asia-Pacific	4,656	38 %	3,411	29 %	2,960	22 %
Europe	727	6 %	3,532	30 %	4,683	36 %
Others	411	3 %	155	1 %	519	4 %
Total Revenues	$ 12,129	100 %	$ 11,836	100 %	$ 13,165	100 %

By Country:

	Fiscal Year					
	2023		2022		2021	
	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total
US	$ 6,213	51 %	$ 4,592	39 %	$ 4,767	36 %
Japan	4,449	37 %	1,735	15 %	2,078	16 %
Netherlands	—	— %	1,508	13 %	1,052	8 %
Others	1,467	12 %	4,001	33 %	5,268	40 %
Total Revenues	$ 12,129	100 %	$ 11,836	100 %	$ 13,165	100 %

Countries listed in the above table were those with revenues greater than 10% for the year ended December 31, 2023. The Company does not maintain significant amounts of long-lived assets outside of the United States.

Note 20 — Quarterly Financial Information (Unaudited)

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

	Fiscal Year 2023			
	December 31,	September 30,	June 30,	March 31,
Revenue	$ 1,067	$ 2,180	$ 4,691	$ 4,191
Gross profit (loss)	(4,245)	(238)	972	876
Net loss	(19,880)	(10,983)	(9,045)	(10,241)
Net loss per share, basic and diluted	(0.32)	(0.17)	(0.14)	(0.16)

	Fiscal Year 2022			
	December 31,	September 30,	June 30,	March 31,
Revenue	$ 2,898	$ 3,427	$ 3,008	$ 2,503
Gross profit (loss)	(126)	868	262	479
Net loss	(10,759)	(9,477)	(10,022)	(10,506)
Net loss per share, basic and diluted	(0.17)	(0.15)	(0.16)	(0.16)

	Fiscal Year 2021			
	December 31,	September 30,	June 30,	March 31,
Revenue	$ 3,314	$ 3,019	$ 2,917	$ 3,915
Gross profit (loss)	(12)	363	359	860
Net loss	(11,493)	(10,488)	(9,245)	(9,151)
Net loss per share, basic and diluted	(0.17)	(0.17)	(0.15)	(0.17)

VUZIX CORPORATION

Schedule II — Valuation and Qualifying Accounts (in thousands)

Description	Balance at Beginning of Period	Charged to Expenses	Deductions	Balance at End of Period
For the Year Ended December 31, 2021				
Allowances deducted from assets				
Doubtful Accounts	$ —	$ —	$ —	$ —
Inventory	3,886	520	(3,279)(a)	1,127
Total allowances deducted from assets	$ 3,886	$ 520	$ (3,279)	$ 1,127
For the Year Ended December 31, 2022				
Allowances deducted from assets				
Doubtful Accounts	$ —	$ —	$ —	$ —
Inventory	1,127	290	—	1,417
Total allowances deducted from assets	$ 1,127	$ 290	$ —	$ 1,417
For the Year Ended December 31, 2023				
Allowances deducted from assets				
Doubtful Accounts	$ —	$ 1,574	$ —	$ 1,574
Inventory	1,417	4,359	—	5,776
Total allowances deducted from assets	$ 1,417	$ 5,933	$ —	$ 7,350

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

Exhibit Index

3.1(1)	Amended and Restated Certificate of Incorporation
3.2(11)	Amended and Restated Bylaws
3.3(2)	Amendment to Amended and Restated Certificate of Incorporation
3.4(3)	Amendment to Amended and Restated Certificate of Incorporation
3.5(4)	Certificate of Designation of Series A Preferred Stock
4.1 (9)	Description of the Registrant's Securities
10.1(5)**	Form of Indemnification Agreement by and between the registrant and each director and executive officer
10.2(5)**	Employment Agreement dated as of August 1, 2007 by and between the registrant and Paul Travers
10.3(5)**	Employment Agreement dated as of August 1, 2007 by and between the registrant and Grant Russell
10.4(6)	Shared Services Agreement, dated as of June 15, 2012, by and between Vuzix Corporation and TDG Acquisition Company LLC
10.5(6)	Reseller Agreement, dated as June 15, 2012, by and between Vuzix Corporation and TDG Acquisition Company LLC.
10.6(6)	Restrictive Covenants Agreement, dated as June 15, 2012, by and between Paul Travers and TDG Acquisition Company LLC
10.7(7)	2014 Equity Incentive Plan
10.9 (10) †	Amendment No. 1 to agreements with TDG Acquisition Company, LLC
10.10 (12)* #	License Agreement, dated December 16, 2022
10.11 (12)* #	Stock Purchase Agreement, dated December 16 2022
10.12 (12)* #	Shareholders Agreement, dated December 16, 2022
14.1(8)	Code of Ethics
21.1*	Subsidiaries
23.1*	Consent of Freed Maxick, CPAs, P.C.
31.1*	Certification of CEO as required by Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2*	Certification of CFO as required by Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32.1***	Section 1350 CEO Certification
32.2***	Section 1350 CFO Certification
97*	Clawback policy
101*	The following materials, formatted in inline XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements, tagged as blocks of text
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

† Confidential treatment granted as to certain portion
* Filed herewith.
** Indicates management contract or compensatory arrangement.
*** Furnished herewith.

Portions of this agreement have been omitted.

(1) Filed as an exhibit to Amendment No. 3 to the Registration Statement on Form S-1 filed October 16, 2009 and incorporated herein by reference.

(2) Filed as an exhibit to the Current Report on Form 8-K filed February 7, 2013 and incorporated herein by reference.

(3) Filed as an exhibit to the Current Report on Form 8-K filed June 30, 2014 and incorporated herein by reference.

(4) Filed as an exhibit to the Current Report on Form 8-K filed January 2, 2015 and incorporated herein by reference.

(5) Filed as an exhibit to the S-1 filed July 2, 2009 and incorporated herein by reference.

(6) Filed as an exhibit to the Current Report on Form 8-K filed June 21, 2012 and incorporated herein by reference.

(7) Filed with Definitive Proxy Statement on April 30, 2014 and incorporated herein by reference.

(8) Filed as exhibit to 10-K filed March 30, 2016 and incorporated herein by reference.

(9) Filed as exhibit to Form 10-K filed March 16, 2020 and incorporated herein by reference.

(10) Filed as exhibit to Form 8-K filed October 10, 2018 and incorporated herein by reference.

(11) Filed as exhibit to Form 8-K filed April 30, 2021 and incorporated herein by reference.

(12) Filed as exhibit to Form 10-K filed March 1, 2023 and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 15th day of April, 2024.

VUZIX CORPORATION

/s/ Paul Travers
Paul Travers
Chief Executive Officer

POWER OF ATTORNEY

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

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

Signature	Title	Date
/s/ Paul Travers Paul Travers	President, Chief Executive Officer and Director *(Principal Executive Officer)*	April 15, 2024
/s/ Grant Russell Grant Russell	Chief Financial Officer, Executive Vice-President and Director *(Principal Financial and Accounting Officer)*	April 15, 2024
/s/ Edward Kay Edward Kay	Director	April 15, 2024
/s/ Timothy Harned Timothy Harned	Director	April 15, 2024
/s/ Azita Arvani Azita Arvani	Director	April 15, 2024
/s/ Emily Nagle Green Emily Nagle Green	Director	April 15, 2024
/s/ Raj Rajgopal Raj Rajgopal	Director	April 15, 2024

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-276997, 333-270311, 333-252673, 333-231932, 333-209304, and 333-202045) and on Form S-8 (No. 333-252959) of our report dated April 15, 2024, relating to the consolidated financial statements of Vuzix Corporation appearing in the Annual Report on Form 10-K for the year ended December 31, 2023.

/s/ Freed Maxick CPAs, P.C.

Buffalo, New York
April 15, 2024

Exhibit 31.1

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

I, Paul Travers, certify that:

1. I have reviewed this Annual Report on Form 10-K of Vuzix Corporation;

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

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

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

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

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

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

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

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

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

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

/s/ Paul Travers
Paul Travers
Chief Executive Officer

Date: April 15, 2024

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 Annual Report on Form 10-K of Vuzix Corporation;

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

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

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

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

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

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

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

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

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

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

/s/ Grant Russell
Grant Russell
Chief Financial Officer

Date: April 15, 2024

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 Annual Report of Vuzix Corporation ("Vuzix") on Form 10-K for the fiscal year ended December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Paul Travers, Chief Executive Officer of Vuzix, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Paul Travers
Paul Travers
Chief Executive Officer

Date: April 15, 2024

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 Annual Report of Vuzix Corporation ("Vuzix") on Form 10-K for the fiscal year ended December 31, 2023 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: April 15, 2024

Exhibit 97

<u>COMPENSATION CLAWBACK POLICY</u>

Each executive officer shall repay or forfeit, to the fullest extent permitted by law and as directed by the Board of Directors of the Company (the "Board"), compensation awards received by him or her as provided herein -

A. *Restatement Resulting from Material Noncompliance*. If the Company is required to prepare an accounting restatement resulting from the material noncompliance of the Company with any financial reporting requirement under the securities laws (whether or not resulting from the fraudulent actions of any Section 16 Officer (as defined below)) or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period, the Board will direct that the Company recover up to the full amount of erroneously awarded incentive-based compensation as determined in accordance with the following:

- The only compensation that will be subject to recovery under this clause (A) is compensation that is (i) "incentive-based," meaning that it is granted, earned or vested based wholly or in part upon the attainment of a financial reporting measure, (ii) received during the three (3) completed fiscal years immediately preceding the date that the Company is required to prepare a restatement of its previously issued financial statements to correct a material error and (iii) received by an individual who served as a Section 16 Officer of the Company at any time during the performance period for the incentive-based compensation.

- The amount of erroneously awarded incentive-based compensation shall be the amount of incentive-based compensation received that exceeds the amount of incentive-based compensation that otherwise would have been received had it been determined based on the accounting restatement and shall be computed without regard to any taxes paid.

B. *Restatement Resulting from Fraud*. If any of the Company's financial statements are required to be materially restated resulting from the fraudulent actions of any Officer, the Board may direct that the Company recover all or a portion of any incentive compensation paid or awarded to, or earned by any such Officer (including annual incentive cash, stock options, restricted stock units, and any other equity awards) with respect to any year for which the Company's financial results are adversely affected by such restatement.

C. *Reduction or Cancellation of Compensation Following Fraud or Misconduct.* If, in the Board's judgment, any current or former Section 16 Officer has engaged in conduct that (a) constitutes fraud or misconduct; and (b) has caused, or might reasonably be expected to cause financial harm to the Company or significant reputational harm to the Company, then the Board may in its sole and absolute discretion instruct the Company, to recover, reduce or cancel any incentive compensation paid or awarded to, or earned by such current or former Section 16 Officer (including annual incentive cash, stock options, restricted stock units, and any other equity awards), with respect to any year for which the Company has been adversely affected by such fraud or misconduct, provided that the Company will not seek to recover any incentive compensation earned more than three (3) years prior to the date the Board takes such action.

D. For purposes of this policy, (1) the term "Officer" refers to any corporate officer of the Company or any Section 16 Officer and (2) the term "Section 16 Officer" refers to any "officer," as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934, as amended, of the Company. Any determination of whether an individual is a current or former Officer or Section 16 Officer for purposes of this policy shall be made by the Board in its discretion.

The Board's independent directors, as identified pursuant to applicable exchange listing standards, shall have full and final authority to make all determinations under this Policy, including without limitation whether the Policy applies and if so, the amount of the compensation awards to be repaid or forfeited by the executive officer. Repayment can be made from the proceeds of the sale of Company stock and the forfeiture of other outstanding awards. All determinations and decisions made by the Board's independent directors pursuant to the provisions of this Policy shall be final, conclusive and binding on all persons, including the Company, its affiliates, its shareholders and employees.

Each award agreement or other document setting forth the terms and conditions of any annual incentive or other performance-based award granted to an executive officer shall be deemed to include the provisions of this Policy. The remedy specified in this policy shall not be exclusive and shall be in addition to every other right or remedy at law or in equity that may be available to the Company.

The Board acknowledges that this Policy will be amended if and as required to comply with the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Company shall seek to recover incentive compensation paid to any executive officer as required by the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act or any other "clawback" provision required by law or the listing standards of the NASDAQ Capital Market.

As adopted by the Board of Directors of the Company as of April 24, 2023.