Vuzix Corp
Form 10-Q/A
May 20, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from _________to_______

Commission file number 000-53846

VUZIX CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**04-3392453**
(State or other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

2166 Brighton Henrietta Townline Rd **Rochester, New York**	**14623**
(Address of principal executive offices)	(Zip code)

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

Former name, former address and former fiscal year, if changed since last report N/A

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 x No ¨

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

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

Large accelerated filer ¨   Accelerated filer ¨

Non-accelerated filer   ¨   Smaller reporting company x

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

As of May 20, 2013, there were 3,536,865 shares of the Registrant’s common stock outstanding.

Explanatory Note

The purposes of this amendment to Vuzix Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, filed with the Securities and Exchange Commission on May 15, 2013 (the "Form 10-Q"), are: (i) to correct the number of shares on the front cover of the Form 10-Q as the last two digits were transposed and understating the issued common shares by 11, and (ii) to correct the sub-total of long-term liabilities as of March 31, 2013, with the Total Liabilities sub-total remaining unchanged and as originally reported, and (iii) correct two amounts relating to unpaid accrued interest in arrears which were overstated by $3,000 in the main body section Item 2 so as to agree to the financial statement note amount of $23,862 and (iv) to furnish revised Exhibit 101, which contains the XBRL (eXtensible Business Reporting Language) Interactive Data File for the financial statements and notes included in Part I, Item 1 of the Form 10-QA that reflect the noted corrections (i) to (iii). No other changes have been made to the Form 10-Q or XBRL Interactive Data. This amendment speaks as of the original filing date of the Form 10-Q, does not reflect events that may have occurred subsequent to the original filing date and does not modify or update in any way disclosures made in the Form 10-Q except as noted above.

Under Rule 405(a)(2)(ii) of Regulation S-T, Exhibit 101 is permitted to be furnished by amendment within 30 days of the original filing date of the Form 10-Q.

Vuzix Corporation

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Part 1: FINANCIAL INFORMATION

Item 1: Condensed Consolidated Financial Statements (Unaudited)

VUZIX CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
Current Assets		
Cash and Cash Equivalents	$532,426	$66,554
Accounts Receivable, Net	224,120	170,600
Inventories (Note 5)	648,941	687,181
Deferred Offering Costs (Note 6)	242,640	199,571
Prepaid Expenses and Other Assets	65,012	85,768
Total Current Assets	1,713,139	1,209,674
Tooling and Equipment, Net	589,065	664,967
Patents and Trademarks, Net	556,033	551,307
Debenture Issuance Costs, Net	225,798	—
Total Assets	$3,084,035	$2,425,948
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	$3,201,479	$2,896,567
Lines of Credit (Note 7)	112,500	112,500
Notes Payable (Note 8)	389,066	258,209
Current Portion of Long-term Debt, net of discount	1,283,355	1,060,188
Current Portion of Capital Leases	44,978	57,244
Customer Deposits (Note 9)	59,401	63,079
Accrued Interest	237,678	161,703
Accrued Expenses (Note 10)	607,414	519,672
Income Taxes Payable	24,428	21,486
Derivative Valuation (Note 11)	635,299	—
Total Current Liabilities	6,595,598	5,150,648

Long-Term Liabilities		
Accrued Compensation (Note 12)	1,060,096	1,010,096
Long Term Portion of Term Debt, net of discount (Note 13)	1,680,802	1,715,253
Long Term Portion of Capital Leases	33,936	40,041
Long Term Portion of Accrued Interest	773,516	719,475
Total Long-Term Liabilities	3,548,350	3,484,865
Total Liabilities	10,143,948	8,635,513
Stockholders' Equity (Deficit)		
Series C Preferred Stock — $.001 Par Value, 5,000,000 Shares Authorized; (Note 20) 0 Shares Issued and Outstanding in Each Period	—	—
Common Stock — $.001 Par Value, 700,000,000 Shares Authorized; 3,536,865 Shares Issued and Outstanding March 31, 2013 and December 31, 2012	3,537	3,537
Additional Paid-in Capital	20,019,153	19,933,202
Accumulated (Deficit)	(27,082,603)	(26,146,304)
Total Stockholders' Equity (Deficit)	(7,059,913)	(6,209,565)
Total Liabilities and Stockholders' Equity	$3,084,035	$2,425,948

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

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VUZIX CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For Three Months Ended March 31, 2013	2012
Sales of Products	$ 608,661	$ 913,941
Sales of Engineering Services	130,523	196,100
Total Sales	739,184	1,110,041
Cost of Sales — Products	282,013	676,453
Cost of Sales — Engineering Services	55,374	74,505
Total Cost of Sales	337,387	750,958
Gross Profit	401,797	359,083
Operating Expenses:		
Research and Development	317,695	247,338
Selling and Marketing	274,743	354,706
General and Administrative	416,686	562,591
Depreciation and Amortization	98,348	135,827
Impairment of Patents and Trademarks	—	9,268
Total Operating Expenses	1,107,472	1,309,730
(Loss) from Continuing Operations	(705,675)	(950,647)
Other Income (Expense)		
Interest and Other (Expense) Income	—	48
Foreign Exchange Gain (Loss)	(13,070)	(4,942)
Loss on Derivative Valuation	(14,287)	—
Amortization of Senior Term Debt Discount	(9,728)	—
Interest Expense	(179,842)	(95,049)
Total Other Income (Expense)	(216,927)	(99,943)
(Loss) from Continuing Operations Before Provision for Income Taxes	(922,602)	(1,050,590)
Provision (Benefit) for Income Taxes (Note 18)	13,696	17,002
(Loss) from Continuing Operations	(936,298)	(1,067,592)
Income (Loss) from Discontinued Operations (Note 3)	—	223,109

Net Income (Loss)	$ (936,298)	$ (844,483)
Earnings (Loss) per Share from Continuing Operations (Note 3)		
Basic and Diluted	$ (0.26)	$ (0.30)
Earnings (Loss) per Share		
Basic and Diluted	$ (0.26)	$ (0.24)
Weighted-average Shares Outstanding Basic and Diluted	3,536,865	3,536,865

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

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VUZIX CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Three Months Ended March 31, 2013	2012
Cash Flows from Operating Activities		
Net Income (Loss)	$ (936,298)	$ (844,483)
Non-Cash Adjustments		
Depreciation and Amortization	98,348	135,827
Impairment of Patents and Trademarks	—	9,268
Stock-Based Compensation Expense	19,347	57,397
Amortization of Term Debt Discount	9,728	69,301
Amortization of Debt Issuance Costs	1,244	—
Loss on Derivative Valuation	14,287	—
(Increase) Decrease in Operating Assets		
Accounts Receivable	(53,520)	307,491
Inventories	38,240	686,610
Deferred Offering Costs	(43,069)	—
Prepaid Expenses and Other Assets	20,757	(9,047)
Increase (Decrease) in Operating Liabilities		
Accounts Payable	304,913	(41,095)
Accrued Expenses	8,318	(64,207)
Customer Deposits	(3,678)	(363,558)
Income Taxes Payable	2,942	(300)
Accrued Compensation	129,422	93,269
Accrued Interest	130,016	257,746
Net Cash Flows (Used in) Provided by From Operating Activities	(259,003)	294,219
Cash Flows from Investing Activities		
Purchases of Tooling and Equipment	(9,051)	(37,036)
Investments in Patents and Trademarks	(18,121)	(7,995)
Net Cash (Used in) Provided by From in Investing Activities	(27,172)	(45,031)
Cash Flows from Financing Activities		
Net Change in Lines of Credit	—	(230,000)
Repayment of Capital Leases	(18,371)	(21,277)
Repayment of Long-Term Debt and Notes Payable	(119,447)	(4,035)

Proceeds from Senior Convertible Debt	800,000	—
Issuance Costs on Senior Convertible Debt	(160,439)	—
Proceeds from Notes Payable	250,304	—
Net Cash Flows (Used in) Provided by Financing Activities	752,047	(255,312)
Net Increase (Decrease) in Cash and Cash Equivalents	465,872	(6,124)
Cash and Cash Equivalents — Beginning of Period	66,554	417,976
Cash and Cash Equivalents — End of Period	$ 532,426	$ 411,852
Supplemental Disclosures		
Interest Paid	49,826	106,749
Income Taxes Paid	10,754	15,802
Discount on senior convertible debenture attributed to warrants	621,012	—
Warrants granted for senior convertible debenture issuance costs	66,603	—

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

VUZIX CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of Vuzix Corporation and Subsidiaries (“the Company") have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information (“GAAP”) and with the instructions to Form 10-Q and Article 8 of Regulation S-X of the Securities and Exchange Commission. Accordingly, the unaudited Condensed Consolidated Financial Statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The condensed consolidated balance sheet as of December 31, 2012 was derived from the audited Consolidated Financial Statements in Form 10-K.

The accompanying Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements of the Company as of December 31, 2012, as reported in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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

The results of the Company’s Tactical Display Group business have been classified and presented as discontinued operations in the accompanying unaudited Consolidated Statement of Operations (Note 3). Prior period results have been adjusted to conform to this presentation. No other adjustments have been made to the unaudited Consolidated Financial Statements and following notes.

All per share amounts, outstanding shares, warrants, options and shares issuable pursuant to convertible securities for all periods reflect the Company’s 1-for-75 reverse stock split, which was effective February 6, 2013.

Note 2 — Liquidity and Going Concern Issues

The Company’s independent registered public accounting firm’s reports issued on the consolidated financial statements for the year ended December 31, 2012 and 2011 included an explanatory paragraph describing the existence of conditions that raise substantial doubt about the Company’s ability to continue as a going concern, including continued operating losses and the potential inability to pay currently due debts. The Company has incurred a net loss from continuing operations consistently over the last 2 years. The net loss for the first quarter of 2013 was $936,298. The Company has incurred annual net losses from its continuing operations of $4,747,387 in 2012 and $5,332,866 in 2011, and has an accumulated deficit of $27,082,603 as of March 31, 2013. The Company’s ongoing losses have had a significant negative impact on the Company’s financial position and liquidity.

With the sale of assets relating to the Company’s Tactical Display Group business (the “TDG Assets”) on June 15, 2012 and subsequent debt repayments, the Company was for a period no longer in default under the various covenants then contained in its agreements with its Convertible, Senior Secured Term loan lender and with its bank which provided Lines of Credit under a secured revolving loan agreement. This asset sale, debt repayments and other debt deferrals improved the working capital position of the Company. However due to its continued operating losses and the transition of its business away from its former military related product sales, it expects to see a further increase in its working capital deficiency until new technology and commercial products, as well as new waveguide defense related products are developed.

The Company has not been in compliance with its minimum cash covenant as contained in its agreements with its Convertible, Senior Secured Term loan lender. Additionally the Company has not been making its required monthly principal and interest payments and was behind $309,562 and $23,862, respectively as of March 31, 2013. The Company is attempting to negotiate a waiver and a rescheduling of its required principal payments, but to date the senior lender has not issued such waivers or entered into a forbearance agreement, under which they would agree to forbear from enforcing their remedies against the Company. As such the lender is currently able to exercise its remedies under the loan agreement, including acceleration of the amounts due them and foreclosure and sale of the collateral held by them, which comprises substantially all of the Company’s assets.

The Company’s cash requirements are primarily for funding operating losses, working capital, research, principal and interest payments on debt obligations, and capital expenditures. Historically, the Company has met these cash needs by borrowings under notes, sales of convertible debt, the sales of equity securities and the sale of assets. There can be no assurance that the Company will be able to borrow or sell securities in the future, which raises substantial doubt about the ability of the Company to continue as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets carrying amounts or the amount of and classification of liabilities that may result should the Company be unable to continue as a going concern.

As part of the Company’s search for additional capital, on March 21, 2013, the Company issued a secured convertible debenture in the amount of $800,000. The debenture bears interest at a rate of 16% per year, payable quarterly in cash or shares of common stock at our option. Commencing on February 1, 2014, we will be required to redeem a certain amount under the debenture on a periodic basis in an amount equal to $200,000 on each of February 1, 2014, May 1, 2014 and August 1, 2014 and $50,000 on each of August 1, 2015, August 1, 2016, August 1, 2017 and March 21, 2018, until the debenture’s maturity date of March 21, 2018.

Management of the Company is currently pursuing a financing to raise the additional capital needed to continue planned operations. In the event that the Company is unable to complete a sufficient public offering in a timely manner, the Company would need to pursue other financing alternatives during 2013, which could include a private financing, bridge financing or collaboration agreements. The Company may not be able to obtain financing on acceptable terms, or at all, and the Company may not be able to enter into additional collaborative arrangements. The terms of any financing may adversely affect the holdings or the rights of the Company’s stockholders. Arrangements with collaborators or others may require the Company to relinquish rights to certain of its technologies or product candidates. If the Company is unable to obtain funding, the Company could be forced to delay, reduce or eliminate its research and development programs or future commercialization efforts, which could adversely affect its business prospects.

Note 3 — Discontinued Operations

In an effort to improve working capital, cure debt defaults and pay down debts, on June 15, 2012, the Company entered into an Asset Purchase Agreement (the “Agreement”) between the Company and TDG Acquisition Company, LLC, a Delaware limited liability company (“TDG”). Pursuant to the Agreement, the Company sold and licensed those of its assets (including equipment, tooling, certain patents and trademarks) (the “TDG Assets”) that comprised its tactical defense group, which engaged in the business of selling and licensing products and providing services, directly and indirectly, to military, defense and security organizations (the “Business”). The sale of the TDG Assets included sale of the Company’s proprietary Tac-Eye displays and its night vision electronics and optics module products. The Company received a worldwide, royalty free, assignable grant-back license to all the patents and other intellectual property sold to TDG, for use in the manufacture and sale of products other than in the military, defense and security markets. The Company retained the right to sell goods and services to other end user consumers, and to TDG and TDG and the Company jointly received the right to sell goods and services into all markets other than the military, defense and security markets and the consumer market. Under the Agreement, TDG is allowed to sell its goods and services in all markets other than the consumer market or to end users. Also pursuant to the Agreement, the Company and TDG entered into a Vuzix Authorized Reseller Agreement, pursuant to which TDG is authorized as the exclusive reseller of the Company's current and future products to military, defense and security organizations, unless TDG elects to have the Company make such sales directly.

The purchase price paid to the Company by TDG consists of two components: $8,345,793 net of adjustments, which was paid at closing, and up to an additional $2.5 million, which will be received only if TDG achieves certain quarterly and annual revenue targets from sales of goods and services to military, defense and security organizations. The purchase price was determined by arm's length negotiations between the parties. We recorded a gain of $5,837,607 from the asset sale.

In accordance with ASC 205-20, the sale of the TDG Assets has been accounted for as discontinued operation. Accordingly, the operating results of the TDG Assets for the three months ended March 31, 2013 and 2012 have been reclassified as discontinued operations on the unaudited Consolidated Statement of Operations. Below is a summary of these results:

	For Three Months Ended March 31,	
	2013	2012
	(Unaudited)	(Unaudited)
Sales of Products	$ —	$ 1,387,337
Sales of Engineering Services	—	354,014
Total Sales	—	1,741,351
Total Cost of Sales	—	986,869
Gross Profit	—	754,482