

# MRA Research

Independent Investment Research

November 3, 2014

**Michael Anderegg, CFA**  
Senior Research Analyst

Research  
Update

United States  
Technology  
Augmented Reality (AR)

## Vuzix Corporation(OTCQB: VUZI)

On the Verge of the Next Smartphone Revolution

Reason for Report:  
Research Update

Rating: **OVERWEIGHT/BUY**

Recent Price: **\$3.19**

### Market Data

Market Capitalization (mln)	<b>\$33.7</b>
Fully Diluted Shrs Outstnd (mln)	<b>10.56</b>
Float (mln)	<b>7.74</b>
Ave. Volume (3 month 000)	<b>54.2</b>
Institutional Ownership	<b>37.6</b>
Insider Ownership	<b>33%</b>
Exchange	<b>OTCQB</b>

### Balance Sheet Data

Shareholders' Equity (000s)	<b>\$(8,472)</b>
Price / Sales (ttm)	<b>13.4X</b>
Net Cash (mln)	<b>\$1.97</b>
Working Capital (000s)	<b>\$1</b>
Long-term Debt (000s)	<b>\$10.175</b>
Total Debt to Capital	<b>N/A</b>

Revenue Data	2013	2012
(FYE 12/31)		
Revenue (000's)	<b>2,389</b>	<b>3,228</b>

## Summary and Investment Thesis

- Vuzix is a leading developer and supplier of smart glasses and video eyewear products in the consumer, enterprise and industrial markets. With roots dating back over a decade this is a solidly established competitor that is acknowledged to be challenging for leadership in a number of important future technology niches. The Company's products - personal display and wearable computing devices offer users a portable high quality viewing experience that provide solutions for mobility, wearable computing displays and Virtual and Augmented Reality (AR).
- Vuzix is in the enviable position as one of a select few leaders in leading edge products like smart glasses, smart phones and yet to be released products that are expected to drive future adoption and proliferation of technology worldwide. To be listed in a cohort with undisputed success stories such as Google, Apple and other technology bellwethers is a notable accomplishment that should have investors on notice for the significant potential of this Company.
- Vuzix has partnerships with dominant technology players that have already established incredible presence and marketing muscle in the target markets. The Company signed an exclusive strategic & marketing agreement in July with Lenovo New Business Development in China to sell its M100 Smart Glasses across China. Vuzix has positioned its technology to be implemented for both consumer use and enterprise solutions. First volume shipments to Lenovo began in early September 2014. Vuzix' enterprise opportunities are reinforced by development and marketing partnerships with Nokia and SAP. SAP recently launched two applications based around the M100 Smart Glasses.
- Vuzix is recognized as a leader in smart glasses and is at the forefront of the rapidly growing wearable technology market with opportunities in the billions of dollars. This emerging industry is already targeted by many leading Consumer Electronics firms as they seek to participate in the next wave of mega growth opportunities. We rate the shares Overweight/Buy with a near term price target of \$7.00 based on very large rapidly growing available markets and leading edge product offerings.

**Vuzix Corporation**  
2166 Brighton Henrietta Townline Road  
Rochester, NY 14623  
United States - [Map](#)  
Phone: 585-359-5900  
Fax: 585-359-4172  
Website: <http://www.vuzix.com>



Please see analyst certification and required disclosures at the end of this report.

## Technical Analysis

### Vuzix Corporation

**Daily:** VUZI has been in a trading range essentially for the last year since a gap down that has set the upper limit of price appreciation. Despite volatility and a slight upward bias the range has remained and even contracted somewhat.

- On-balance volume (lower series) has been building on the accumulation side and we have the beginnings of a series of higher lows that may culminate in a breakout attempt from the range after several months. Near term we have important support in the \$2.59 area.
- There is resistance overhead at the recent high of \$3.49 and then the top of our operative gap down at \$4.27. Even proper timing within this range can provide reasonable profit opportunity we are looking to catch a bigger move on the next range expansion. To establish an uptrend we need to see closes above \$4.27. Above that level we look at the important Fibonacci levels of 50%-61.8% which equates to \$4.89- \$5.63 as important resistance.
- Key Initial Support: \$2.59
- Technical Price Target: \$7.00

### Vuzix Corporation

Daily (OTCQB: VUZI \$3.19)



## Company Background

The Company is engaged in the design, manufacture, marketing and sale of wearable display devices that are worn like eyeglasses and feature built-in video screens that enable the user to view video and digital content, such as movies, computer data, the Internet or video games. VUZI wearable display products, known commercially as Video Eyewear (also referred to as head mounted displays or HMDs, Smart Glasses, wearable displays, video glasses, personal viewers, neareye virtual displays, and near-eye displays or NEDs) contain micro video displays that offer users a portable high-quality viewing experience. VUZI Video Eyewear products provide virtual large high-resolution screens, fit in a user's pocket or purse and can be viewed practically anywhere, anytime. They can also be used for virtual and augmented reality applications, in which the wearer is either immersed in a computer generated world or has their real world view augmented with computer generated information or graphics. In the 4th quarter of 2013, VUZI started selling Smart Glasses, a new category of Video Eyewear that includes a wearable computer and has much of the capabilities of a smartphone including wireless internet access but that is worn like glasses. VUZI produces both monocular and binocular Video Eyewear devices. Video Eyewear is designed to work with mobile electronic devices, such as cell phones, laptop computers, tablets, portable media players and gaming systems.

Historically, the Company has focused on two markets: the consumer markets for gaming, entertainment and mobile video and the market for rugged mobile displays for defense, commercial and industrial markets. In June 2012, management divested its

Tactical Defense Group, which sold products and services to military and defense organizations. Accordingly, the focus is now primarily on the consumer, commercial and entertainment markets.

Users of mobile display devices, like tablets and smartphones, are increasingly using such devices to replace their personal computer or console game systems. The displays currently used in these mobile devices are less than ideal for this purpose because they are either too small, or too large causing various problems. In contrast, VUZI Video Eyewear products enable users of many mobile devices to effectively view the entire screen on a small, eyeglass-like device. VUZI's new Smart Glasses, although designed to work as a peripheral to the smartphone, have many of the same capabilities of the smartphone itself, allowing them to be used as a hands free wearable computer. VUZI products can be used as a wearable substitute for large-screen televisions or desktop computer monitors and with the Smart Glasses, allow users to utilize many smartphone applications while keeping their smartphones in a pocket or purse.

VUZI Video Eyewear products all employ microdisplays that are smaller than one-inch diagonally, with some as small as one-quarter of an inch. They currently can display an image with a resolution of up to 1280×720 pixels (High Definition or HD). Users then view the display through proprietary optics. Using these optics and displays, VUZI Video Eyewear provides a virtual image that appears similar to the image on a full size computer screen in an office desktop environment or the image on a large flat panel television viewed from normal home TV viewing distances. For example, when viewed through VUZI optics, a high-resolution 0.35-inch diagonal microdisplay can provide a viewing experience comparable to that on a 75-inch diagonal television screen viewed at ten feet. Management believes one of the most promising future uses of wearable displays like VUZI Video Eyewear is in applications where virtual 3D information enhances real world environments. This is often referred to as Augmented Reality or AR. To obtain an enhanced view of the real environment, users wear see-through Video Eyewear that allow them to see 3D computer-generated objects superimposed on their real-world views. This see-through capability is accomplished using a see-through optic, such as waveguides or by the use of cameras. In the past, see-through HMDs displayed the real world using semi-transparent mirrors placed in front of the user's eyes. These HMDs were large and bulky and so they had little mass market appeal. VUZI has developed thin optics, called waveguides that enable miniature display engines to be mounted in the temples of the HMD, which allows the form factor of the HMD to be comparable to conventional eyeglasses.

Management believes that with a hands free wearable computer like VUZI M100 Smart Glasses, that have the capability to merge virtual information with the real world, the potential exists to penetrate many markets from the consumer to industry.

### Strategy / Approach

Management's goal is to establish and maintain a leadership position as a worldwide supplier of Video Eyewear and Smart Glasses solutions. The intention is to offer technologies across major markets, platforms and applications. VUZI strives to be an innovator in designing near-eye wearable display devices that can enable new mobile video viewing and general entertainment, VR and AR applications.

To maintain and enhance the position as a leading provider of near-eye virtual display solutions, management intends to:

- Improve brand name recognition;
- Provide excellent products and service;
- Develop products based on unique technology for both specialized and large consumer markets;
- Broaden and develop strategic relationships and partnerships;
- Sell products or license technology to third party companies that would incorporate and sell as a new product with their own brand name (OEM partners);
- Promote and enhance development of third party software that can take advantage of VUZI products;
- Expand market awareness for Video Eyewear, including applications for mobility (with Smart Glasses) and Virtual Reality (VR) and
- Augmented Reality (AR) for which Video Eyewear is well suited

## Market Opportunity

Current mobile display technology is almost universally based on direct view screens. These displays are designed to be small and make portability easy. At the same time, it is difficult for these displays to produce human readable high resolution content without magnification or large character fonts due to their small size. VUZI products are solving these problems by creating large screens that fit in tiny packages (eyeglasses). The wireless and entertainment industry has evolved considerably, and continues to do so. The mobile phone, once simply a means to communicate by voice while “on-the-go,” has evolved into a ubiquitous, location-aware, smart mobile computing device. Mobile products such as smartphones and pad/tablet computers are becoming the leading computing platforms with an installed base surpassing that of PCs. Mobile technology is redefining the way people interact with their world and has become an essential lifestyle management and entertainment tool personalized to users’ unique needs. Mobile devices and internet access will have a more profound impact than the Wired Internet and interactive AR content is expected to significantly transform the way mobile products are used. As a result, there is growing demand for mobile access to high-resolution content in several major markets and that demand will grow for Smart Glasses that have smartphone capabilities in all markets where smartphones are currently used. Wearable near-eye displays that can provide the equivalent of a high resolution wired internet at home or office experience will be a key component in advanced wearable wireless devices as these systems move to providing high resolution images without compromising the portability of the product.

The business focuses on the mobile consumer entertainment and gaming markets and the mobile commercial and industrial markets. The demand for wearable displays in these markets is being driven by such factors as:

Increasing use of the Internet in many aspects of society and business, which is increasing demand for Internet access “anywhere, anytime”.

An increasing number of hands-free industrial and commercial applications, such as on-site training and display of information on the factory floor or retail store, for which the products are well suited. Video gaming around the world continues to grow even as more users migrate a greater portion of their game time to mobile devices. Management believes that its high resolution Virtual Display technologies will significantly increase user satisfaction with gaming applications by engaging the user with a large high resolution mobile screen that also enables stereoscopic imagery and interactive head tracking.

Management believes the growing use of augmented reality applications on smartphones will drive the need for a wearable display solution to replace the need to hold up the smartphones to use the application.

The new user friendly 3D connectivity standards like HDMI 1.4a, 3D console gaming and other 3D content is creating a need for methods to play this content. Video Eyewear, with its dual display design, is well suited for the playback of 3D content and avoids many of the drawbacks such as flicker, image cross talk and color separation, commonly encountered by shutter or color anaglyph glasses. Many 3D viewing solutions require the user to purchase new computer or television equipment. Video Eyewear users do not need a separate display or shutter glasses to view 3D content. Video Eyewear can also be used to view 3D through mobile devices allowing 3D content to be delivered anytime anywhere.

## Target Markets

Target markets and applications by major sector are:

### Commercial and Industrial

VUZI Smart Glasses products are currently focused on the enterprise, industrial and medical markets. They are being used for field service to warehouse pick and pack applications. The smart glasses run native Android applications within the glasses that allow them to stream video in realtime which is very useful for many applications. Within the short period of time VUZI has been selling M100 Smart Glasses for many applications including remote camera viewfinder displays and wearable computer displays, viewing of wireless sensor data, providing hands-free access to manuals and other information and for on-site, in-the-field maintenance, servicing, training and education.

### Consumer

**Media and Entertainment.** Management believes that there is an increasing demand for convenient, high-resolution, 3D displays to view content such as movies, entertainment and the Internet in mobile environments and as a secondary display in the home.

**Gaming.** Management believes that there is a need for high-resolution, interactive, stereoscopic 3D display devices for use with desktop computers, consoles, tablets and other gaming products. Gaming on mobile devices that have graphics and processing capabilities closely equivalent to laptop computers and consoles but with small, direct view screens is not a satisfactory experience for many consumers. VUZI video Eyewear products are designed to significantly enhance a consumer’s experience by providing larger-appearing, high-resolution images with stereoscopic 3D capabilities. There is also a demand for

display devices that enable the user to simulate and experience movement within a three-dimensional environment when using either gaming consoles or mobile devices. VUZI anticipates that VR and AR will become increasingly popular entertainment applications. Both VR and AR are difficult to implement using traditional desktop computer monitors and televisions but can be successfully implemented with Video Eyewear. VUZI technologies and products enable a user to use those applications.

### **Augmented Reality for all Markets**

VUZI offers smart wearable display products that enable development and deployment of AR applications. AR Smart Glasses enable its wearer to see computer-generated information, graphics or images projected into the real world environment or upon an object that the user is observing. Thus, whether in the warehouse, on the factory floor, or in-the-field, users may access a manual, tutorial, or image that will assist them in completing a task or locating an item, while also viewing their current surroundings and nearby objects. Management anticipates applications will include the following areas:

- Field service, warehousing, and maintenance;
- Task support for industrial, manufacturing and medical applications;
- Navigation;
- Sightseeing;
- Social networking
- Location and scene based entertainment and education applications;
- Mobile commerce and visual search applications; and
- Real time language translation.

Additional possible applications of AR-enabled M100 Smart Glasses include hands free alerts, messaging, location and context sensitive information and social interaction.

### **Products**

**Note: A full discussion of all product offerings is beyond the scope of this report and we urge readers to consult the voluminous available information on the Company website and in its regulatory filings, among other publicly available sources for comprehensive product data.**

The Company produces and sells three main types of wearable display products: **Video Eyewear** (for on-the-go users as remote displays for mobile and hands-free use); **Virtual Reality** (or VR) Video Eyewear (for stepping into virtual worlds, simulations & gaming); and **Augmented Reality (AR) Video Eyewear** (for overlaying virtual information from the cloud onto the real world). VUZI products are available with varying features and include either monocular or binocular display systems. Starting in the fourth quarter of 2013, VUZI began to commercially produce the Smart Glasses versions of its Video Eyewear that have many of the capabilities of a smartphone to allow applications to be run directly in the Video Eyewear glasses enabling cloud connected applications through a wireless link directly with the glasses. Management believes that VUZI provides the broadest range of consumer Video Eyewear product offerings available in the market and that the products contain some of the most advanced electronics and optics for their target markets and uses. VUZI products include:

#### **Monocular and Binocular Video Eyewear Products**

VUZI won Consumer Electronics Show (or CES) awards for innovation for the past 9 consecutive years (2005 to 2014) for its series of Binocular Video Eyewear. Video Eyewear products have included several models with differing native resolutions and virtual screen sizes. The binocular Video Eyewear products contain two microdisplays (a separate display for each eye), typically mounted in a frame attached to eyeglass-style temples. These products enable mobile and hands-free private viewing of video content on screens that simulate home theater-sized screens, all of which support 3D applications.

At the January 2014 CES show VUZI introduced a new Video Eyewear concept, “video headphones” that won two awards in the wearable technology categories. Video headphones are effectively noise canceling audio headphones with an HD video visor that slides down in front of the user’s eyes to create a wearable home theater experience.

From 2003 to 2009, VUZI sold a line of monocular (single eye) Video Eyewear Products called the M920, which were discontinued in 2009 and replaced with a monocular high-resolution Video Eyewear model called Tac-Eye. This product is ruggedized and designed to clip onto a pair of ballistic sunglasses, helmets or conventional safety goggles. The Tac-Eye

product line was sold as part of the TDG Asset sale in June 2012. Monocular products, due to their single eye display are best used for “information snacking” and are not designed for extended user viewing without training.

### **Virtual Reality Products**

Virtual Reality (VR) Video Eyewear products provide a user with 3D computer simulated environments that can simulate the real or an imaginary world. By definition, VR Products are binocular so they can provide an immersive 3D world view for the user. The current VR product is the Wrap 1200DX VR, the fourth generation of VR Video Eyewear. These Virtual Reality products contain “three degrees of freedom” head tracking technology, which enables the user to look around the environment being viewed by moving his or her head. Today VR is primarily used for game playing, training and simulations. It is anticipated that the V720 video headphones will also have tracking capabilities and hence will support VR.

### **Augmented Reality Products**

Augmented Reality Products provide a user a live, direct or indirect, view of a physical, real-world environment whose elements are augmented by computer generated sensory input such as sound, video, graphics or GPS data. The current AR products include the Wrap 920AR and STAR 1200.

### **Custom Solutions and Engineering Solutions**

In the past VUZI provided full optics systems, including head mounted displays, human computer interface devices, and wearable computers to commercial, industrial and defense customers. A full discussion of all product offerings is beyond the scope of this report and we urge readers to consult the voluminous available information on the Company website and in its regulatory filings, among other publicly available sources for comprehensive product data.

### **Competition**

#### **Competitors and Competitive Advantage**

The personal display industry in which VUZI operates is highly competitive. VUZI compete against both direct view display technology and near-eye display technology. The principal competitive factors in the personal display industry include image size, image quality, image resolution, power efficiency, manufacturing cost, weight and dimension, feature implementation, ergonomics and finally, the interactive capabilities of the overall display system. Most competitors’ products for mobile use are based on direct view display systems in which the user views the display device, or screen, directly without magnification. These products have several disadvantages compared to near-eye virtual displays and VUZI wearable Video Eyewear products. Management believes that most of the competitors’ near eye products have had inferior optics, marginal electronics and poor industrial design and that, as a result, VUZI Video Eyewear products are superior to many of the competitors’ in both visual performance and ergonomics.

### **Intellectual Property**

A comprehensive discussion of intellectual property is beyond the scope of this report and readers are urged to consult the Company website as well as regulatory filings for detailed information on this subject.

## **Recent Events**

### **Vuzix and Evolar's Smartpick AR App Integrated in PCData's Distrib XE Suite**

Smartpick AR Branded As Distrib AR For Bakery Implementation To Reduce Error-Rated And Increase Productivity

ROCHESTER, N.Y., Oct. 30, 2014 /PRNewswire via COMTEX/ -- Vuzix Corporation (OTCQB: VUZI), a leading supplier of Video Eyewear and Smart Glasses products in the consumer, commercial and entertainment markets, announced that the logistics automation firm, PCData, has integrated Smartpick AR into its PCData's Distrib XE Module and branded it as Distrib AR for use in the baking industry.

Smartpick AR is a first-of-its kind solution to provide a more simplified and efficient method for order picking. The Smartpick app, which was designed by Evolar, an ICT and Logistics Company, utilizes the Vuzix M100 Smart Glasses to offer an easy and affordable way to enable product pickers in warehouses, factories and retail operations to work faster, smarter and with less errors. PCData ([www.pcddata.nl](http://www.pcddata.nl)) is a global leader in logistics automations systems for fast moving consumer goods, and partner of choice in the industrial bakery world. PCData has over 800 systems installed across the globe, in more than 30 countries - including over 150 systems in North America.

Distrib AR is the latest product addition to PCData's portfolio of picking solutions for the baking industry. The M100 is fully integrated in its Distrib XE suite, offering bakeries all functionalities to improve their existing dispatching process. The Distrib AR module is based on Augmented Reality (AR) when used with the M100 Smart Glasses. The Distrib AR solution is a self-

supporting solution developed specifically with bakery operations in mind. It records all dispatch transactions, making it easy to accurately establish how and when the orders have been fulfilled to reconcile against production numbers. The solution offers similar high-performance, hands-free guided picking operation. Distrib AR has been showcased at the CeMAT fair in Hannover this week.

Distrib AR benefits include:

- Elimination of "unaccounted for" product
- Real-time track & trace of order fulfillment
- 20-50% proven efficiency improvement versus paper based order fulfillment
- Standardized way of working drives quality of delivery
- No IT hassle or need for electrician to get started

Paul Travers, President and CEO of Vuzix said, "It's great to see the evolution of the Smartpick application. PCData is a leader in logistics for commercial bakeries worldwide and with this tool they are able to improve operational efficiency for their clients. Demand for order picking systems has increased as an increasing number of businesses seek more efficient processes for their order fulfillments and the Smartpick enables the picker to be more productive."

### **NTT DOCOMO Releases Open Web API Compatible with Vuzix M100 Smart Glasses**

Largest Mobile Phone Operator in Japan Releases "Device Connect WebAPI" for Mobile Device Connectivity

ROCHESTER, N.Y., Oct. 23, 2014 /PRNewswire via COMTEX/ -- Vuzix Corporation (OTCQB: VUZI), a leading supplier of Video Eyewear and Smart Glasses products in the consumer, commercial and entertainment markets, today announced Vuzix M100 compatibility with NTT DOCOMO's recent release of the "Device Connect WebAPI", an open source application-programming interface (API) to provide connectivity with various wearable electronic devices. The release supports Vuzix' award-winning M100 Smart Glasses. The API is currently being standardized by the Open Mobile Alliance the industry forum that is driving mobile-service standardization. Vuzix will be demonstrating the WebAPI running on Vuzix M100 Smart Glasses at the Digital Content Expo October 23 - 26, 2014 in Tokyo, Japan.

With more than 53 million customers, DOCOMO's Device Connect WebAPI release now enables near seamless interoperability between devices, apps, and web pages utilizing server-virtualization technology running on smartphones. The Device Connect WebAPI also engages developers to reach customers on mobile, social and cloud platforms, to fuel mobile and multichannel innovation strategies. The common API allow developers to create apps compatible with a variety of devices including the M100 Smart Glasses, which usually require dedicated development kits.

DOCOMO's new Open Web API allows developers to integrate services, sensors and other devices which will enable them to build completely new experiences based around the M100 Smart Glasses, fostering a more interactive experience and customized functionality. For example, a developer could link a wristband device of one manufacturer to operate Vuzix' Smart Glasses, and likewise retrieve data from a pedometer and a bodyweight scale of different manufacturers, and then integrate the data for display with a single application or web browser.

"We've been working with DOCOMO for some time and are collaborating on how to open up the power of our M100 Smart Glasses to extend beyond the current capabilities, to create innovation, and increase the depth of the overall experience," said Paul Travers, President and CEO of Vuzix. "Last year we demoed the M100 at the CEATEC Japan 2013 which received strong interest for our M100 Smart Glasses from the attendees at the event. DOCOMO sees that the wearable space is an exciting area to be in and is working with Vuzix to create an opportunity in the industry on a wider scope. We recognize the importance of being able to interact easily with other devices and sensors to harness creativity across the developer spectrum and provide a more varied experience for our users."

The Device Connect WebAPI, available on [www.GitHub.com](http://www.GitHub.com), is currently being standardized as a Generic Open Terminal API of the Open Mobile Alliance - <http://openmobilealliance.org>, Vuzix is a member of OMA the industry forum that is driving mobile-service standardization.

### **SAP to Launch 3rd Application Supporting Vuzix M100 Smart Glasses**

New AR Operator Rounds Application Unveiled This Week at TechEd & d-code Conference in Las Vegas

ROCHESTER, N.Y., Oct. 21, 2014 /PRNewswire via COMTEX/ -- Vuzix Corporation (OTCQB: VUZI), a leading supplier of

Video Eyewear and Smart Glasses products in the consumer, commercial and entertainment markets, today announced that SAP will be unveiling its third state-of-the-art application supporting Vuzix' M100 Smart Glasses for the enterprise markets at the TechEd & d-code Conference in Las Vegas, Nevada, held on October 20 - 24, 2014.

SAP's AR Operator Rounds application enables a workforce to conduct operator rounds and perform inspections of their equipment and facilities hands-free when using the Vuzix M100 Smart Glasses. Increased resulting efficiencies include reduced maintenance, as well as improvements in compliance and environmental, health and safety (EH&S) concerns. AR Operator Rounds support advanced features like communications with beacons allowing equipment ID and improved indoor navigation, equipment readings and measurements directly in the Smart Glasses, and over the shoulder remote support, full voice control; all with hands-free operation, a compelling feature offered by Vuzix' wearable M100 Smart Glasses.

SAP also recently showcased, and has started selling, two other augmented reality apps that support Vuzix Smart Glasses - SAP AR Warehouse Picker mobile app and SAP AR Service Technician mobile app. "We have been working closely with SAP to develop applications for the industrial user to increase productivity and efficiency for the enterprise market and we are pleased that SAP continues to roll out new applications that support our smart glasses. Our products are aimed at helping our customers simplify their work flow, and drive growth and ROI for their business." commented Paul Travers, President and CEO of Vuzix.

### Summary/Conclusion

Vuzix is acknowledged as a leader in smart glasses and is at the forefront of the rapidly growing wearable technology market with opportunities in the billions of dollars. This emerging industry is already targeted by many leading Consumer Electronics firms as they seek to participate in the next wave of mega growth opportunities. Vuzix is in the enviable position as one of a select few leaders in leading edge products like smart glasses, smart phones and yet to be released products that are expected to drive future adoption and proliferation of technology worldwide. To be listed in a cohort with undisputed success stories such as Google, Apple and other technology bellwethers is a notable accomplishment that should have investors on notice for the significant potential of this Company. By getting its' start in the demanding leading edge defense industry with significant government funding over the years VUZI has been able to accumulate an impressive intellectual property portfolio that now includes portfolio consisting of 39 patents issued and an additional 10 pending. Over \$35 million has been invested in Vuzix' technologies through U.S. government and military research grants and Vuzix' R&D budget.

Vuzix has partnerships with dominant technology players that have already established incredible presence and marketing muscle in the target markets. The Company signed an exclusive strategic & marketing agreement in July with Lenovo New Business Development in China to sell its M100 Smart Glasses across China. Vuzix has positioned its technology to be implemented for both consumer use and enterprise solutions. First volume shipments to Lenovo began in early September 2014. Vuzix' enterprise opportunities are reinforced by development and marketing partnerships with Nokia and SAP. SAP recently launched two applications based around the M100 Smart Glasses. SAP a \$90 billion dollar enterprise solutions leader will be selling Vuzix products to support their customer installations.

We believe the combination of increasing revenue growth rates and positioning in front of a virtual tsunami of future growth in new technologies such as virtual and augmented reality can combine to drive both market cap and multiple expansion over the next several quarters. We rate the shares **Overweight/Buy** with a price target of \$7.00 based on very large rapidly growing available markets and leading edge product offerings.

### Additional Links to VUZI Videos and Articles

**Head Mounted Display (HMD) Market Forecasted to Be Worth \$11,793.3 Million by 2020 by Grand View Research, Inc.**  
<http://www.digitaljournal.com/pr/2286177>

**A Google Glass fit for the factory floor by Michael Casey**  
<http://fortune.com/2014/09/11/lenovo-vuzix-m100-smart-glasses-china/>

**VUZI CEO Interview by Fox's Maria Bartiromo**  
<http://video.foxbusiness.com/v/3716807203001/cool-wearable-glasses/#sp=show-clips>

**Vuzix CEO: Warehouse Use of Smart Glasses Set To Explode in 2015. Interview by Gregg Greenberg of The Street**  
<http://www.thestreet.com/video/12920017/vuzix-ceo-warehouse-use-of-smart-glasses-set-to-explode-in-2015.html>



## Appendix - Financial Overview

(Figures for QE June. 30, 2014)

Vuzix Corporation (the “Company”) was recently advised by its independent registered accounting firm, EFP Rotenberg, LLP (“EFPR”), of its intention to cease serving as the Company’s independent registered public accounting firm upon the Company identifying a successor firm. The Company understands that the basis for EFPR’s decision is that EFPR has made a strategic decision to serve public companies in roles other than as the independent auditor. On October 3, 2014 the Company engaged Freed Maxick, LLP (“Freed Maxick”) as the Company’s independent registered public accounting firm, and EFPR resigned as the Company’s independent registered public accounting firm. This appears to be a normal course of business change that does not raise any particular concerns for our analysis. As a result the most recently disclosed and fully filed financial results are for the 2<sup>nd</sup> fiscal quarter of 2014 and investors should be aware of this temporary time lag during their due diligence process. We will accordingly limit our commentary on financial results at this time.

### Note Income Taxes

The Company files U.S. federal and U.S. state tax returns. At December 31, 2013, the Company had unrecognized tax benefits totaling \$11,405,522, of which would have a favorable impact on the tax provision (benefit), if recognized.

### Comparison of Three Months Ended June 30, 2014 and June 30, 2013

#### Sales.

Sales were \$723,258 for the quarter ended June 30, 2014 compared to \$700,195 for the same period in 2013. This represents a 3% increase for the three month period ended June 30, 2014 as compared to 2013. Product sales were \$609,887 or 84% of total sales for the second quarter of 2014 as compared to \$511,861 or 73% of total sales for same period in 2013, an increase of \$98,026 or 19%. The increase was primarily attributable to new product introductions, especially the M100. Sales from engineering programs for the second quarter of 2014, decreased to \$113,371 or 16% of total sales compared to \$188,334 or 27% of total sales in the same quarter 2013. The major reason for the decrease was the fact that only one Navy waveguide development program was active during the second quarter of 2014 as compared to multiple programs in the same 2013 period.

#### Cost of Sales and Gross Profit.

Gross profit decreased to \$261,018 for the second quarter of 2014 from \$293,573 for the same period in 2013, a decrease of \$32,555 or 11%. As a percentage of net sales, gross profit decreased to 36% for the second quarter of 2014 compared to 42% for the same period in 2013. This decrease was primarily the result of a change in overall sales mix, with M100 Smart Glasses being a larger portion of overall sales in 2014 versus the 2013 period when the higher margin AR Video Eyewear models were a larger percentage of overall sales.

#### Net Income (Loss) and Income (Loss) per Share.

Net income was \$239,110 or \$0.023 basic and \$0.021 diluted per share in the quarter ended June 30, 2014, compared to a net loss of \$1,656,736 or \$0.47 basic and diluted loss per share for the same period in 2013.

**VUZIX CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

	June 30, 2014	December 31, 2013
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 1,971,311	\$ 310,140
Accounts Receivable, Net	166,137	214,920
Inventories (Note 4)	916,826	953,627
Prepaid Expenses and Other Assets	60,736	200,936
<b>Total Current Assets</b>	<b>3,115,010</b>	<b>1,679,623</b>
Tooling and Equipment, Net	353,641	446,329
Patents and Trademarks, Net	514,593	495,608
Software Development Costs, Net	722,758	240,561
Debt Issuance Costs, Net	134,685	—
<b>Total Assets</b>	<b>\$ 4,840,687</b>	<b>\$ 2,862,121</b>
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 2,092,915	\$ 2,420,571
Notes Payable (Note 5)	159,986	278,467
Current Portion of Long-term Debt, net of discount (Note 9)	98,106	99,320
Current Portion of Capital Leases	20,372	24,670
Customer Deposits (Note 6)	67,106	170,777
Accrued Interest	54,506	36,935
Accrued Expenses (Note 7)	582,691	554,264
Income and Other Taxes Payable	38,800	75,851
<b>Total Current Liabilities</b>	<b>3,114,482</b>	<b>3,660,855</b>
<b>Long-Term Liabilities</b>		
Long Term Derivative Liability (Note 8)	8,961,351	12,035,816
Long Term Portion of Term Debt, net of discount (Note 9)	1,207,794	170,496
Long Term Portion of Capital Leases	6,009	16,882
Long Term Portion of Accrued Interest	23,307	16,365
<b>Total Long-Term Liabilities</b>	<b>10,198,461</b>	<b>12,239,559</b>
<b>Total Liabilities</b>	<b>13,312,943</b>	<b>15,900,414</b>
<b>Stockholders' Equity (Deficit)</b>		
Preferred Stock — \$.001 Par Value, 5,000,000 Shares Authorized; 0 Shares Issued and Outstanding in Each Period	—	—
Common Stock — \$.001 Par Value, 100,000,000 Shares Authorized June 30, 2014 and 700,000,000 Shares Authorized December 31, 2013; 10,315,141 Shares Issued and Outstanding June 30, 2014 and 9,600,453 Shares Issued and Outstanding on December 31, 2013	10,315	9,600
Additional Paid-in Capital	26,058,945	23,244,639
Accumulated (Deficit)	(34,541,516)	(36,292,532)
<b>Total Stockholders' Equity (Deficit)</b>	<b>(8,472,256)</b>	<b>(13,038,293)</b>
<b>Total Liabilities and Stockholders' Deficit</b>	<b>\$ 4,840,687</b>	<b>\$ 2,862,121</b>

**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2014	2013	2014	2013
Sales of Products	\$ 609,887	\$ 511,861	\$ 1,259,305	\$ 1,120,521
Sales of Engineering Services	113,371	188,334	262,371	318,857
<b>Total Sales</b>	<b>723,258</b>	<b>700,195</b>	<b>1,521,676</b>	<b>1,439,378</b>
Cost of Sales — Products	416,808	315,280	807,457	597,291
Cost of Sales — Engineering Services	45,432	91,342	105,032	146,716
<b>Total Cost of Sales</b>	<b>462,240</b>	<b>406,622</b>	<b>912,489</b>	<b>744,007</b>
<b>Gross Profit</b>	<b>261,018</b>	<b>293,573</b>	<b>609,187</b>	<b>695,371</b>
Operating Expenses:				
Research and Development	295,552	421,026	692,974	738,721
Selling and Marketing	256,767	287,741	621,322	562,484
General and Administrative	532,561	602,065	1,012,197	1,018,753
Depreciation and Amortization	101,438	90,612	201,143	188,960
<b>(Loss) from Operations</b>	<b>(925,300)</b>	<b>(1,107,871)</b>	<b>(1,918,449)</b>	<b>(1,813,547)</b>
<b>Other Income (Expense)</b>				
Other Taxes	(25,093)	(3,241)	(46,535)	(16,937)
Foreign Exchange Gain (Loss)	3,713	3,324	(237)	(9,745)
Gain (Loss) on Derivative Valuation	1,248,556	(280,261)	3,823,818	(294,548)
Amortization of Senior Term Debt Discount (Note 9)	(33,889)	(37,292)	(40,214)	(47,019)
Interest Expenses	(28,877)	(231,395)	(67,367)	(411,238)
<b>Total Other Income (Expense)</b>	<b>1,164,410</b>	<b>(548,865)</b>	<b>3,669,465</b>	<b>(779,487)</b>
<b>Income (Loss) from Before Provision for Income Taxes</b>	<b>239,110</b>	<b>(1,656,736)</b>	<b>1,751,016</b>	<b>(2,593,034)</b>
Provision (Benefit) for Income Taxes	—	—	—	—
<b>Net Income (Loss)</b>	<b>239,110</b>	<b>\$ (1,656,736)</b>	<b>1,751,016</b>	<b>(2,593,034)</b>
<b>Earnings (Loss) per Share (Note 3)</b>				
Basic	\$ 0.02	\$ (0.47)	\$ 0.17	\$ (0.73)
Diluted	\$ 0.02	\$ (0.47)	\$ 0.15	\$ (0.73)
Weighted-average Shares Outstanding Basic	10,285,453	3,536,856	10,135,387	3,536,856

## Risk Factors

The information below enumerates some of the risk factors included in the Company's Form 10-K for its fiscal year ended February 1, 2014 that should be considered by investors. Investors should carefully consider the risk factors set out below and consider all other information contained herein and in the Company's SEC filings before making an investment decision. We assume no obligation to update or revise any such forward-looking statements to reflect events or circumstances that occur after such statements are made.

This report includes forward-looking statements. These statements are based primarily on management's beliefs and assumptions and on information currently available.

Forward-looking statements enumerating risk factors include statements concerning:

- possible or assumed future results of operations;
- business strategies;
- management ability to attract and retain customers;
- management ability to sell additional products and services to customers;
- Company cash needs and financing plans;
- Company competitive position;
- industry environment;
- potential growth opportunities;
- expected technological advances by VUZI or by third parties and management ability to leverage them;
- the effects of future regulation; and
- the effects of competition.

### Going Concern Issues

The Company's independent registered public accounting firm's report issued on the consolidated financial statements for the years ended December 31, 2013 and 2012 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 Company incurred annual net losses from its continuing operations of \$10,146,228 in 2013 and \$4,747,387 in 2012, and has an accumulated deficit of \$36,292,532 as of December 31, 2013. The Company's ongoing losses have had a significant negative impact on the Company's financial position and liquidity.

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. If the Company is required to raise additional funds by selling additional shares of its capital stock, or securities convertible into shares of its capital stock, the ownership interest of existing shareholders may be diluted. The amount of dilution could be increased by the issuance of warrants or securities with other dilutive characteristics, such as full ratchet anti-dilution clauses or price resets. The Company can give no assurance that it will be able to obtain additional financing on favorable terms or at all.

### Our Rating System

We rate companies based on the appreciation potential we believe their shares represent, and the "riskiness" we perceive in our ratings. The business results of those companies "NOT RATED" are often highly dependent on some future event, such as FDA drug approval or the option of a new key technology.

### Explanation of Ratings Issued by MRA Research

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<b>OVERWEIGHT/BUY</b>	Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country Index average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 6-12 months.
<b>EQUAL WEIGHT/HOLD</b>	Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 6-12 months.
<b>NOT RATED</b>	Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 6-12 months.
<b>UNDERWEIGHT/SELL</b>	Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country's equity indices and/or the total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 6-12 months.

### Analyst Certification

I, Michael Anderegg, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

#### DISCLOSURE:

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This report may contain certain forward-looking statements and information, as defined within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, and is subject to the Safe Harbor created by those sections. This material

contains statements about expected future events and/or financial results that are forward-looking in nature and subject to risks and uncertainties. Such forward- looking statements by definition involve risks, uncertainties and other factors, which may cause the actual results, performance or achievements of mentioned company to be materially different from the statements made herein.

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