

Vuzix Corp
Form 10-Q
November 19, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2012

OR

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

Commission file number 000-53846

VUZIX CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	04-3392453
State or other jurisdiction of	(I.R.S. Employer
incorporation or organization	Identification No.)

2166 Brighton Henrietta Townline Rd

14623

Rochester, New York

(Address of principal executive offices) (Zip Code)

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

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

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

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

Non-accelerated filer ☐

Large accelerated filer ☐ Accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

As of November 19, 2012, there were 265,259,348 shares of the registrant's common stock outstanding.

Vuzix Corporation

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Part 1: FINANCIAL INFORMATION**Item 1: Condensed Consolidated Financial Statements (Unaudited)****VUZIX CORPORATION****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	September 30 2012	December 31, 2011
Current Assets		
Cash and Cash Equivalents	\$ 171,574	\$ 417,976
Accounts Receivable, Net	290,982	1,104,084
Inventories, Net (Note 4)	697,963	2,539,721
Prepaid Expenses and Other Assets	74,547	74,625
Total Current Assets	1,235,066	4,136,406
Tooling and Equipment, Net	674,446	961,692
Patents and Trademarks, Net	592,916	720,599
Total Assets	\$ 2,502,428	\$ 5,818,697
Current Liabilities		
Accounts Payable	\$ 2,278,408	\$ 3,766,617
Lines of Credit (Note 5)	—	652,081
Current Portion of Long-term Debt, net of discount	887,222	4,924,838
Current Portion of Capital Leases	51,414	84,684
Customer Deposits (Note 6)	64,893	392,151
Accrued Interest	—	62,176
Accrued Expenses (Note 7)	247,540	305,840
Income Taxes Payable	483	300
Total Current Liabilities	3,529,960	10,188,687
Long-Term Liabilities		
Accrued Compensation (Note 9)	1,050,895	810,096
Long Term Portion of Term Debt, net of discount (Note 10)	1,935,699	1,072,051

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Long Term Portion of Capital Leases	12,673	52,000
Long Term Accrued Interest	799,451	520,611
Total Long-Term Liabilities	3,798,718	2,454,758
Total Liabilities	7,328,678	12,643,445
Stockholders' Equity		
Series C Preferred Stock — \$.001 Par Value, 500,000 Shares Authorized; 0, Shares Issued and Outstanding at September 30 and December 31, Respectively	—	—
Common Stock — \$.001 Par Value, 700,000,000 Shares Authorized; 265,259,348, Shares Issued and Outstanding at September 30 and December 31, Respectively	265,259	265,259
Additional Paid-in Capital	19,638,698	19,455,241
Accumulated (Deficit)	(24,730,207)	(26,469,144)
Subscriptions Receivable	—	(76,104)
Total Stockholders' Equity	(4,826,250)	(6,824,748)
Total Liabilities and Stockholders' Equity	\$2,502,428	\$5,818,697

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

VUZIX CORPORATION**CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	For Three Months Ended September 30,		For Nine Months Ended September 30,	
	2012 (Unaudited)	2011 (Unaudited)	2012 (Unaudited)	2011 (Unaudited)
Sales of Products	\$ 566,495	\$ 991,134	\$ 2,071,122	\$ 2,358,223
Sales of Engineering Services	190,000	250,000	446,100	559,606
Total Sales	756,495	1,241,134	2,517,222	2,917,829
Cost of Sales — Products	486,650	824,799	1,610,742	1,978,293
Cost of Sales — Engineering Services	71,000	177,544	169,551	311,774
Total Cost of Sales	557,650	1,002,343	1,780,293	2,290,067
Gross Profit	198,845	238,791	736,929	627,762
Operating Expenses:				
Research and Development	267,230	338,023	736,418	1,064,562
Selling and Marketing	282,011	334,342	904,987	990,666
General and Administrative	507,883	663,871	1,643,981	1,995,637
Depreciation and Amortization	123,983	111,052	391,530	333,201
Total Operating Expenses	1,181,107	1,447,288	3,676,916	4,384,066
(Loss) from Continuing Operations	(982,262)	(1,208,497)	(2,939,987)	(3,756,304)
Other Income (Expense)				
Interest and Other (Expense) Income	-	221	279	1,182
Foreign Exchange Gain (Loss)	157	(185)	(1,585)	(2,000)
Amortization of Senior Term Debt Discount (Note 10)	(6,326)	—	(18,977)	—
Interest Expenses	(121,871)	(106,443)	(362,130)	(315,422)
Total Other Income (Expense)	(128,040)	(106,407)	(382,413)	(316,240)
(Loss) from Continuing Before Provision for Income Taxes	(1,110,302)	(1,314,904)	(3,322,400)	(4,072,544)
Provision (Benefit) for Income Taxes	5,721	5,854	28,690	27,086

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(Loss) from Continuing Operations	(1,116,023)	\$(1,320,758)	(3,351,090)	(4,099,630)
Income (Loss) from Discontinued Operations (Note 16)		\$400,205	(747,580)	1,831,231
Gain (Loss) on Disposal of Discontinued Operations (Note 3)	(65,056)	\$—	5,837,607	—
Net Income (Loss)	(1,181,079)	(920,553)	1,738,937	(2,268,399)
Earnings (Loss) per Share from Continuing Operations				
Basic	\$(0.0042)	\$(0.0050)	\$(0.0126)	\$(0.0156)
Diluted	\$(0.0042)	\$(0.0050)	\$(0.0126)	\$(0.0156)
Earnings (Loss) per Share				
Basic	\$(0.0045)	\$(0.0035)	\$0.0066	\$(0.0086)
Diluted	\$(0.0045)	\$(0.0035)	\$0.0062	\$(0.0086)
Weighted-average Shares Outstanding Basic	265,259,348	263,624,718	265,259,348	263,608,333
Diluted	—	—	346,839,666	—

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

VUZIX CORPORATION**CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Nine Months Ended September 30,	
	2012	2011
Cash Flows from Operating Activities		
Net Income (Loss)	\$1,738,937	\$(2,268,398)
Non-Cash Adjustments		
Depreciation and Amortization	382,262	333,201
Impairment of Patents and Trademarks	9,268	—
Stock-Based Compensation Expense	139,451	223,899
Amortization of Senior Term Debt Discount	771,225	188,927
Non-Cash Compensation	74,072	—
Forgiveness of Debt	46,037	—
Gain on Sale of Discontinued Operations	(5,837,607)	—
(Increase) Decrease in Operating Assets		
Accounts Receivable	513,503	(17,881)
Inventories	706,717	225,143
Prepaid Expenses and Other Assets	78	96,231
Increase (Decrease) in Operating Liabilities		
Accounts Payable	(1,488,215)	(495,630)
Accrued Expenses	(61,351)	85,209
Customer Deposits	(327,258)	(515,480)
Income Taxes Payable	183	(8,900)
Accrued Compensation	240,799	150,000
Accrued Interest	586,267	452,249
Net Cash Flows Used in Operating Activities	(2,505,632)	(1,551,430)
Cash Flows from Investing Activities		
Purchases of Tooling and Equipment	(167,016)	(458,430)
Investments in Patents and Trademarks	(43,536)	(67,048)
Proceeds from Sale of Assets, Net of Direct Costs	7,509,255	—
Net Cash Used in Investing Activities	7,298,703	(525,478)
Cash Flows from Financing Activities		
Net Change in Lines of Credit	(652,081)	356,041
Exercise of Stock Options	—	1,000
Note Payable Proceeds	150,000	—
Repayment of Capital Leases	(72,597)	(86,603)
Repayment of Notes Payable	(4,464,795)	(417,732)

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Net Cash Flows Provided (Used) by Financing Activities	(5,039,473)	(147,294)
Net Increase (Decrease) in Cash and Cash Equivalents	(246,402)	(2,224,202)
Cash and Cash Equivalents — Beginning of Year	417,976	2,636,819
Cash and Cash Equivalents — End of Period	\$171,574	\$412,617
Supplemental Disclosures		
Interest Paid	338,785	263,788
Income Taxes Paid	23,257	38,046
Non-Cash Investing Transactions		
Equipment Acquired Under Capital Lease	—	44,261

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

VUZIX CORPORATION AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Basis of Presentation

The accompanying unaudited 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 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 accompanying Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements of the Company as of December 31, 2011, 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 16). 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.

Note 2 — Liquidity and Going Concern Issues

With the sale of assets relating to the Company's Tactical Display Group business (the "TDG Assets") and subsequent debt repayments, the Company is no longer in default under the various covenants 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 have improved the working capital position of the Company, reducing the Company's working capital deficiency to \$(2,294,894) as compared to \$(6,052,281) as of December 31, 2011. However due to its continued operating losses and the transition of its business away from existing 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's independent registered public accounting firm's report issued on the consolidated financial statements for the year ended December 31, 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 3 years. The net loss from continuing operations was \$(1,116,023) for third quarter of 2012. The Company's losses in the prior calendar years of 2011, 2010 and 2009 have had a significant negative impact on the Company's ability to conduct its business in the ordinary course, its financial position and its liquidity. The Company has an accumulated deficit of \$(24,730,207) as of September 30, 2012.

The Company was not in compliance with its covenant for the quarter ending September 30, 2012, as contained in its agreements with its Convertible, Senior Secured Term loan lender. Additionally the Company did not make its required principal payment of \$51,596 due on October 15, 2012. 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 their 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, these cash needs have been met by borrowings of notes, sales of convertible debt and the sales of equity securities. Since the sale of the TDG Assets, its cash requirements have primarily been met with the proceeds of that sale. 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 Company's 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.

Note 3 — Gain on Disposal of 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